

U.S. Combat Role May Become Latin Option, Shultz Says

By Bernard Gwertzman
New York Times Service

WASHINGTON — Secretary of State George P. Shultz has warned that if Congress fails to aid the anti-government rebels in Nicaragua, the United States will eventually have to make "an agonizing choice" whether to involve U.S. troops in combat in Central America.

Mr. Shultz has been warning since February that failure to aid the rebels would increase the risk of direct U.S. involvement, but neither he nor any other senior administration official had spoken directly of combat troops before Thursday.

Mr. Shultz said that some critics of the Reagan administration's policy had said "they would favor the military option if all else fails and a real threat comes."

"But by refusing to help the freedom fighters even with humanitarian aid," he said, "they are hastening the day when the threat will grow and when we will be faced

with an agonizing choice about the use of American combat troops."

The administration routinely refers to the insurgents seeking the overthrow of the Nicaraguan government as freedom fighters.

Mr. Shultz made his remarks in a speech to the American Bar Association's standing committee on law and national security. He said that the use of combat troops was "not our policy" and that he was certain it was not desired by critics.

"We want a negotiated settlement," he said. But he added that "negotiations, especially with Communists, cannot succeed unless backed by strength."

Some of Mr. Shultz's criticism of members of Congress, who he said see themselves as "self-appointed emissaries" to the Nicaraguan ruling Sandinistas, touched off a bitter counterattack from Democrats.

The issue of American combat involvement in Central America has been a touchy one for the administration. President Ronald Reagan said that first combat troops would never be sent to Central America; more recently he has said there were no plans to send combat troops, but that he could not preclude it under all circumstances.

Administration officials have also warned Nicaragua in the past that if it acquired high-performance fighter planes such as MiG-21s, the United States reserved the right to use force to destroy the planes.

Congress, which rejected economic and humanitarian aid to the rebels last month, is to consider similar legislation next week. Mr. Shultz appeared to be determined, as Mr. Reagan was earlier in the week, to apply as much pressure as he could on Congress to support the \$14 million in aid sought for this fiscal year.

At one point in his speech, Mr. Shultz accused congressional critics of undermining the administration's policy.

Mr. Shultz apparently was alluding to the highly publicized letter to President Daniel Ortega Sáenz of Nicaragua signed by 10 House Democrats in March 1984. In that letter, the congressmen, led by the majority leader, Representative Jim Wright of Texas, praised actions taken by the Sandinists and the members of the group would be allowed to complain about actions that might harm them.

The negotiations were conducted by the Group of 10, the top monetary officials from the 11 leading industrial countries outside the Communist bloc. The members are Belgium, Britain, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, Switzerland and the United States. The original 10 were later joined by Switzerland.

The agreement brings to an end talks between these countries on ways of stabilizing exchange rates. The discussions began following the Williamsburg economic summit meeting in 1983.

The reform plan, which still requires final ministerial approval, accepts the present system of floating exchange rates and rules out any return to fixed values in the foreseeable future.

The United States and other major

(Continued on Page 2, Col. 4)

11 Nations Set Partial Money Pact

By Paul Lewis
New York Times Service

PARIS — Eleven wealthy democracies have agreed on a modest reform of the world's monetary system aimed at promoting greater currency stability, according to officials involved in the negotiations.

The accord would provide for close examination of each other's economic policies in order to bring about such stability, the officials said. It was reached last week at a meeting of high monetary officials

at the Bank for International Settlements in Basel, Switzerland.

The purpose of such surveillance, they said, would be to promote overall currency stability by encouraging governments "to pay more attention to the interaction of their domestic policies with those of other nations. The economic policies of major countries would be subjected to peer review and the members of the group would be allowed to complain about actions that might harm them."

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The United States and other major

(Continued on Page 2, Col. 4)

Paradox of South African Gold

Source of Riches for Some Illuminates Poverty of Others

By Alan Cowell
New York Times Service

CARLETONVILLE, South Africa — The cage door closes like a trap and the dark descent in the direction of the Earth's core, begins at a brisk 30 miles an hour.

Then there is the trudge along tunnels a mile or two below ground. Squeezing through a narrow opening, you get to the work place: a black cavern perhaps three feet or a meter high, where shafts of light issue from miners' helmets and drills assault the ears and where, in a narrow vein of rock sloped at 22 degrees, there is gold.

Gold is one of the things that makes South Africa rich for some and illuminates the grim poverty of others. Each morning, before dawn, tens of thousands of mine workers, the bulk of them black, clamber into the cages to go below ground, returning to the surface when the day is over to live in single-sex hostels.

Near this mining town, 50 miles (80 kilometers) west of Johannesburg, they boast the world's deepest gold mine, called Western Deep Levels. A little further along the reef that bears the ore there is also the world's biggest gold mine, called Vaal Reefs, both owned by Anglo-American Corp.

Gold, which sells internationally now for about \$315 an ounce, produced profits for the mining companies last year estimated at \$350 million and taxes for the white.

(Continued on Page 2, Col. 6)

A South African gold miner.

Source

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Bomb Death of 4 Provokes Angry Dublin-Belfast Exchanges

Compiled by Our Staff From Dispatches

BELFAST — An IRA bombing that killed four Ulster police officers this week has heightened a dispute between the police forces of the Irish Republic and Northern Ireland, leading to an exchange of complaints.

Observers say the worsened relations threaten to hamper cooperation between the two forces in fighting cross-border attacks by the Irish Republican Army.

The conflict comes at a sensitive time, with talks under way between Dublin and London over a new political formula aimed at ending 15 years of civil strife in Northern Ireland. The formula could include some sort of joint security role.

The rift traces back to an incident in 1982 when contacts between the chiefs of the police forces in the republic and the North broke down.

The dispute was exacerbated Tuesday when Northern Ireland police issued a

statement saying they believed that the men and explosives used in the attack Monday that killed four officers had come from across the border.

The Irish Republic police, in an unprecedented move, issued a counterstatement saying there was no evidence for the charge.

The Dublin statement expressed disappointment over the claim by the North, which it described as pure speculation. "That is not the language of cooperation and mutual concern," it declared.

Dublin accused the Royal Ulster Constabulary of seeking to use the news media to point the finger at police in the republic for allegedly not doing enough to combat terrorism.

Dublin said "misunderstandings of the past few days" between the two forces should be recognized for what they were, and that both forces should be allowed to continue their cooperation "in an effective and professional way."

It made no reference to a call by Sir John Hermon, police chief in Northern Ireland, for a meeting with Lawrence Wren, the republic police chief, and other officials. Britain's domestic news agency, Press Association, said prospects for such meetings seemed slight.

Some specialists on Irish affairs saw the North's statement as an attempt by Sir John to put pressure on his counterpart in Dublin for talks on strengthening security cooperation.

In 1982, regular contacts between the two police chiefs broke down when police in the North briefly detained a man who was to have given evidence in an assault case against a relative of the Irish justice minister at the time, Sean Doherty.

The London Times said Tuesday that the IRA bomb attack on Monday "highlighted the breakdown in relations between senior police officers in the North and the Republic."

The bomb destroyed an armored Royal Ulster Constabulary patrol car a few yards from the border. The explosion near the town of Newry, killed three policemen and a police woman. The IRA claimed responsibility.

The Irish Republican Army is fighting to drive the British from Northern Ireland. It wants to unite the predominantly Protestant province with the overwhelmingly Catholic Irish Republic after overthrowing the political establishment in Dublin.

Guerrillas operate on both sides of the loosely guarded border, often fleeing back to the republic after attacks in the North.

As the violence persists, Britain and Ireland are pursuing a dialogue over a new political formula, but a meeting of Prime Minister Margaret Thatcher and Prime Minister Garret Fitzgerald on the problem will not take place until fall at the earliest, Agence-France Presse reported Friday, quoting government sources.

The officials said that both sides wanted a meeting only if assured of success. They said the meeting, originally announced for the first of the year and then postponed until summer, could be put off altogether.

At a conference of his Fine Gael Party last weekend, Mr. Fitzgerald insisted on "radical action" by the British Government with the Irish government to end the alienation of the Northern Ireland nationalists.

As evidence of such "alienation" left by Catholics, Mr. Fitzgerald cited the success of Sinn Fein, the political arm of the IRA, in May 15 local elections.

Informed sources told AFP that the Irish and British governments had looked at several possibilities for cooperation: closer ties between courts in certain jurisdictions, economic links and cooperation in security matters.

No results have been announced yet. (AP, Reuters, AFP)

WORLD BRIEFS

Punjab Requests Reinforced Security

NEW DELHI (AP) — Authorities in Punjab state, expecting an escalation in sectarian violence early next month, have requested additional paramilitary forces. The state police chief was quoted as saying Friday.

Sikhs in the northern state are planning to observe June 1 to 7 as "massacre" week to commemorate the army attack on the Golden Temple in Amritsar a year ago. Hundreds of Sikhs and soldiers were killed in the assault to dislodge suspected Sikh terrorists from the most revered Sikh shrine.

The United News of India, reporting from the state capital of Chandigarh, quoted the police chief, K.S. Dhillon, as saying that violence was expected in certain Hindu-dominated areas. He declined to say how many additional troops were requested, but he said no curfew was planned in the city. But the police declared curfews in two other Punjab towns after Hindu-Sikh clashes and other violence blamed on Sikhs, the news agency said.

Soviet Dissident Is Allowed to Leave

VIENNA (AP) — Irina Kristi, a Soviet peace activist and friend of Andrei D. Sakharov, arrived Friday with her family on a flight from Moscow after unexpectedly being allowed to leave the Soviet Union.

Mrs. Kristi, 47, said she had been trying to leave her homeland for several years. She was accompanied by her husband, Sergei Gennin, 51, and their son Grigori, 3. She said they hoped to settle in the United States.

Talking of Mr. Sakharov, a physicist and dissident, she said: "We have real grounds to believe that on the 16th of April, Sakharov was on hunger strike... He was taken to the hospital on the 21st and forced, and I have reasons to believe that he was on hunger strike at least until the 3d of May."



Irina Kristi

Reagan to Get Options on SALT Pacts

(Continued from Page 1)

North Atlantic Treaty Organization. Such action also could be expected to reduce prospects for the U.S.-Soviet arms talks at Geneva, where new controls on offensive and space weapons are being discussed.

Besides handing Moscow a significant propaganda advantage, officials say, a decision to break out of the arms control agreements also could doom the chances of Dutch deployment of new U.S. cruise missiles this fall, increase congressional opposition to the president's space-based defense program and kill waning hopes for a U.S.-Soviet summit this year.

SALT-1 was signed in 1972 and expired after five years, but U.S. and Soviet officials said they would continue complying with its provisions while efforts to agree on a second accord proceeded.

SALT-2, signed in 1979 but never ratified, has been called "fatally flawed" by the Reagan administration.

The senior official said these four options are going to the president:

- Delay the decision until closer to Dec. 31. Aside from the uncertainty that the delay would cause, the administration could be forced to face the problem in September, when the Trident submarine Alaska begins sea trials. Its 24 missiles will raise the number of U.S. multiple-warhead missiles to 1,214—or 14 more than the limit of 1,200 permitted by SALT-2—unless a Polaris submarine with 16 missiles is withdrawn from service.

The senior official said these four options are going to the president:

- Abide by those provisions Moscow obeys, but violate those it violates. For instance, the United States believes that Moscow now has a total of 2,514 bombers and missiles or 10 more than they had when SALT-2 was signed. The United States, therefore, could break the pact's multiple-warhead missile limit or could deploy the Midgetman missile to counter the Soviet SS-25.

• Comply with SALT-1, which Moscow has not violated, but stop complying with SALT-2.

• Stop complying with both, since both technically will have expired by year's end.

New Zealand to Delay Nuclear Laws

WELLINGTON, New Zealand (AP) — Prime Minister David Lange said Friday that the government would delay introducing legislation that formalizes its ban on nuclear warships, partly because the bill might be seen as being anti-American.

The prime minister said the bill probably would not be introduced before July. He said that U.S.-New Zealand relations had "settled down into a sensible, working relationship."

The Labor government decided earlier this year not to allow nuclear-powered or nuclear-armed warships into its harbors, putting a strain on relations with the United States. Earlier this week, Mr. Lange canceled a meeting with the U.S. secretary of state, George P. Shultz. Mr. Lange said that U.S. officials told him that Mr. Shultz would not have time to discuss the tripartite alliance of Australia, New Zealand and the United States.

Trial in Pope Shooting Opens Monday

ROME (AP) — Sergei I. Antonov, the Bulgarian charged in Rome with plotting to kill Pope John Paul II, is to go on trial here Monday.

Mr. Antonov, 36, was indicted 18 months after the assassination attempt on May 13, 1981, and has spent nearly three years under arrest awaiting trial.

Mehmet Ali Agca, the Turk sentenced to life imprisonment for shooting the pope, charged after his conviction that he was assisted by Mr. Antonov and two other Bulgarians no longer stationed in Rome. The two others, both Bulgarian Embassy employees, left Italy before police arrested Mr. Antonov on Nov. 25, 1982. Bulgaria has refused to extradite one new model.

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Partial Response to Argentine Strike

Buenos Aires (UPI) — A call for a general strike on Thursday against government austerity measures drew a partial response and the labor action ended peacefully.

Schoolteachers, bus drivers, train workers and many white-collar employees stayed on their jobs, while major industries located around the city closed.

Strikers, some of them beating huge drums, marched and took hired buses and public transportation to a protest rally in the capital's Plaza de Mayo, in front of the presidential palace. Local news agencies estimated the crowd at between 70,000 and 200,000.

For the Record

Sudan's former first vice president, Omar Mohammed Tayib, is to be tried for alleged involvement in the recent ardent of several thousand Ethiopian Jews to Israel via Khartoum, the Sudan News Agency reported.

(AP) — South Africa proposed talks with Angola on Friday to discuss the return of a South African soldier captured in Angola three days ago.

(AP) — The smallest of six surviving septuplets born to Patricia and Sam Frustaci, a one-pound (450-gram) boy, died Friday in Orange, California, of complications from his premature birth.

(AP) — Nigeria's expulsion of illegal immigrants was ending Friday, Radio Nigeria said in broadcasts monitored in Abidjan, Ivory Coast. Reports from neighboring countries indicated that no more than 200,000 of the immigrants, put at 700,000 by Nigeria, had left.

(AP) — The trial of three Solidarity leaders in Poland was postponed Friday when one defendant, Adam Michnik, became ill. A judge ruled in Gdansk that hearings should be put off until June 3.

(Reuters)

The Paradox of South African Gold

(Continued from Page 1)

minority government of about \$1.1 billion.

The laborer in the mines, by way of contrast, earns the equivalent of roughly one-fifth of the price of an ounce of gold, plus food and lodging, each month.

The work is not pleasant, and safety from rockfalls cannot be guaranteed. But however arduous and unpleasant the work is, it is evidently better than staying in a tribal homeland, where, according to the mine employers, there is a pool of at least 300,000 black men waiting for a chance to work in the mines.

By South African law, 97 percent of black mine workers must be migrants. Last year, Lesotho, an independent, black-ruled country ringed by South African territory on all sides, sent 98,000 men to work in South Africa's mines, and its economy is considered to be critically dependent on their remittances.

The use of migrant labor draws in many tribes. Sometimes they fight among one another in battles pitting tribe against tribe in the hostels. Nineteen black mine workers died in such a fight at one of Anglo-American's mines recently.

At Western Deep Levels, said Fred Bayley, Anglo-American's regional manager there, there are men from 13 ethnic groups. To communicate, the tradition has been to train miners — black and white — in an invented language called Fanakalo, which draws on Zulu and English and many other tongues for its vocabulary of about 2,000 words.

When talk in the United States turns to a ban on the sale of Krugerrands, the coins that contain a full ounce of gold, South Africans like to point out the irony.

Until 1974, no one said much

about Krugerrands. Then, with gold's price freed from its long-standing set price of \$35 an ounce, they got down to marketing the coins in earnest. InterGold, the marketing and advertising branch of the mine employers association, called the Chamber of Mines, began selling the coins as "the money of the country concerned."

The irony of the current campaign in the United States is that the sale of Krugerrands, said Bruce Birtell, the manager of InterGold's Coin Division, is that the campaigners would not have had such a prominent target had the marketing and advertising campaign not been withdrawn.

Ken Crumshanks, manager of InterGold's Johannesburg office, said a ban on sales of the coin in the United States "would affect us very seriously." In 1984 the company sold 2.6 million Krugerrands, he said, and the United States is InterGold's biggest market.

The employers would thus oppose the proposed U.S. legislation. But that opposition does not extend to the National Union of Mine Workers, the fast-growing labor organization representing the 500,000 black mine workers in South Africa, which supports pressure for change on the government.

"If Krugerrands were banned" in the United States, said Cyril Ramaphosa, the union's general secretary, "we would not argue that the legislation should be abolished."

That the miners' union is increasingly powerful is not disputed by the employers. But the nature of its support — a matter of some controversy.

"We know for a fact that it has links with the ANC," said an Anglo-American mine manager, referring to its initials to the outlawed

Organization of African National Congress. They said that its guerrillas had "probably" planted the explosives.

Boys in Norway Penetrate Paper With Computer

OSLO — Two boys of 13 said Friday that they had placed a false wedding announcement in a Norwegian newspaper by breaking into its computer system.

"They said the name of one of the 'betrothed' they put in the announcement was that of their teacher," said the boys' father.

One into the computer system, they could have changed anything in the paper, Oestengen, the boys' father said.

The editor of the Eidsvoll paper, Thor Solberg, said he had not realized newspapers with computerized production could be so easily penetrated.

"But I have to admit we've been caught with our trousers down," he said.

Controllers' Walkout Strands Air Passengers in Netherlands

AMSTERDAM — Thousands of air passengers were stranded in the Netherlands on Friday for talks on ending the conflict.

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New U.S. Bill Would Delay Legalization Of Aliens

By Robert Pear
New York Times Service

WASHINGTON — Senator Alan K. Simpson has introduced a new version of his comprehensive immigration bill that would delay the granting of legal status to illegal aliens until after the United States had better control of its borders.

The action on Thursday was the third time in four years that Senator Simpson, a Republican of Wyoming, had introduced a bill to overhaul the nation's immigration laws and curtail the influx of illegal aliens.

There was, however, no sponsor for the new bill in the House. Representative Romano L. Mazzoli, a Democrat of Kentucky, who has led the campaign for the bill in the House, did not attend Senator Simpson's news conference Thursday and was silent on his intentions.

The new Simpson bill differs in several major respects from the legislation passed twice by the Senate and once by the House. Under earlier versions of the bill, amnesty for illegal aliens would have taken effect about the same time as penalties for employers who hired illegal aliens.

The new bill would not offer legal status to illegal aliens until a presidential commission certified that the employer penalties were reducing the illegal entry of aliens into the United States and the employment of illegal aliens. It was not clear how the commission could make such a determination because the government has no reliable way of counting illegal aliens.

A special U.S. commission that studied the immigration question estimated that, as of 1978, there were already 3.5 million to six million persons illegally in the United States, and the problem has steadily grown since then.

Mr. Simpson said he thought the legalization program could start within a year after the bill was passed. But he said it was necessary to make the program contingent on improved enforcement because otherwise it "would cause a tremendous stimulus to further illegal entry" by aliens.

Many conservatives have criticized the amnesty proposal on the ground that it would reward lawbreakers. The senator said he wanted to "assure the American public that legalization will not cause additional flows of illegal aliens."

Passage of the bill appears likely in the Senate, which approved earlier versions of the legislation, in 1982 and 1983, by margins of more than 4 to 1. But the outlook is uncertain in the House, which approved the measure by a vote of 216 to 211 last June.

The Simpson bill would prohibit employers from hiring illegal aliens. An employer convicted on a first offense of hiring illegal aliens would be subject to civil penalties ranging from \$100 to \$2,000 for each illegal alien. The maximum penalty for employers for a "pattern or practice" of violations would be \$10,000 for each alien.

Joseph M. Trevino of the League of United Latin American Citizens and Richard Fajardo of the Mexican-American Legal Defense and Educational Fund opposed the bill. They said the employer sanctions would probably be ineffective and that, as a result, Hispanic people would not get the benefit of a legalization program.



CLOWNING AROUND — Passengers on a New York City subway train are treated to the antics of clowns from the Ringling Bros. and Barnum & Bailey circus.

AMERICAN TOPICS

Twice the Turf Of a U.S. Senator

Every U.S. state has two senators but the six smallest in population — Alaska, Delaware, North Dakota, South Dakota, Vermont and Wyoming — have only one member each in the House of Representatives. Unlike the rest of the 353 members of Congress, each of these six congressmen-at-large represents an entire state. They all agree that this makes them big frogs in small ponds at home, but small frogs in the big pond of Washington.

You can get more attention at home," said James M. Jeffords, a Vermont Republican, noting that recognition throughout the state makes the sole House seat a ready stepping stone for the governorship or the U.S. Senate. "If you're from New York City [which has 19 representatives in Congress] you have to punch the mayor in the nose to get a headline."

In the House, at-large representatives get few choice committee assignments. "You don't have much of a cheering squad," Byron L. Dorgan, a North Dakota Democrat, told The New York Times. "It's especially lonely when you have a controversial issue."

But the six lone wolves never have to chase around to see how other representatives from their state are voting. Thomas A. Daschle, a South Dakota Democrat, said, "You meet your delegation every time you get up in the morning."

Short Takes

Henry W. Maier is the country's longest-tenured big city mayor, with 25 years of running Milwaukee. Mr. Maier, 67, a Democrat, is a pioneer in enacting strict rules to share federal revenue. His 25 years in office surpass the 24 served by a Milwaukee predecessor, Daniel W. Hoan, and by Atlanta's mayor, William B. Hartsfield, or the late Richard J. Daley's 22 years in Chicago, but are well short of the 41 years served by Erastus Corning 2d of Albany, New York, until his death in 1983.

U.S. Navy Refuses To Bend the Knee

The Episcopal bishop of Florida, William H. Folwell, 60, has sued the federal government for \$200,000, claiming he injured his knee when he slipped and fell on the U.S. Naval Training Center's tennis courts at Orlando. The Navy has filed a counterclaim, contending that the bishop was a trespasser and owes \$5,200 for the use of the courts over five years.

The bishop says his left knee was damaged so badly that he is unable to genuflect before the altar.

— Compiled by ARTHUR HIGBEE

Pentagon Procurement: Rewarding Suppliers Who Raise Costs

(Continued from Page 1)

including major weapons themselves, is priced the same way as spares," he said.

Another official agreed. "Any weapon system, such as a fighter," he said, "is only an aggregation of parts and components, and we pay for them on the basis of 'allowable' costs with profit based on a percentage of costs," he said.

"It is just harder to see with a fighter because the layman doesn't have any way of judging what a fighter or a tank should cost," he explained.

Ideas proposed to control the costs of acquiring weapons, and impediments to putting them into effect, include:

• Freezing the military budget. In one sense, this has become one of the more plausible solutions because many members of Congress seem willing to limit the increase in military spending for fiscal 1986 to the rate of inflation. Their intent is not to punish the Pentagon, they say, but to force it to get the most for its money. Several business groups, although not major military contractors, favor this approach.

One problem with that sort of proposal is that in the past it has led to bureaucratic warfare and grotesque attempts to retaliate against budget-cutters. When the departments of Interior and Defense were ordered to cut spending in the 1960s, they responded with suggestions to close the Washington Monument and to retrieve American flags from military buildings rather than presenting them to widows.

Another problem with that approach is that it is unlikely to bring the nation closer to its goal of modernized forces unless unit costs are controlled through better management.

Many congressmen and not a few high-ranking administration officials believe that it is a hopeless

task to measure, let alone boost, the actual increase in military weapons and forces. Therefore they measure their fidelity to a stronger defense in terms of their votes for higher budget totals, as President Ronald Reagan himself has.

• Locking the revolving door. Contractors are increasingly offering contracts to retiring military procurement officers who have supervised their work. Lately they have even hired officers who oversee testing of their weapons.

Under military policy, colonels and navy captains usually retire if they are not selected for promotion to general or admiral. According to statistics, such officers average 43 years of age and, with military allowances added to base salary, are receiving relatively high salaries.

Many have children in college and costly home mortgages. And many are far from ready for actual retirement, in which they would be paid half of base salary.

While few critics accuse such officers of corruption, many believe that the prospect of post-retirement work tempts them to treat contractors as sympathetically as possible.

These critics suggest there is no incentive for program managers and contract administrators to probe contractors' claims about cost and performance.

The Senate, which is presently considering a military authorization bill for fiscal 1986, has approved an amendment that would bar government employees from dealing with contractors who approached them about jobs.

• Getting the uniformed services out of military acquisition. Although the notion may seem novel or even radical, many foreign governments leave acquisition to elite civilian bureaucrats.

The widely admired French system is run by a handful of senior officers who are permanently assigned to procurement and whose promotions and careers are insulated

from the armed forces as a whole.

Another possibility would be to allow the armed services to decide what weapons' capabilities should be and to perform final tests to ensure that those requirements were met. The interim steps would be taken out of the hands of those in uniform.

• Forcing the Pentagon to permit real competition. Calculations indicate that only about 6 percent of the dollar volume of contracts is assigned competitively. The investigative staff of the House Appropriations Committee reported that component prices fell, often spectacularly, in every case in which contracts were awarded competitively.

If signed into law, the Senate's measure requiring the military to use competitive bidding on most contracts could fall victim to bureaucratic sabotage. For example:

Although McDonnell Douglas' C-17 won a contest for design proposals for a new strategic airlift plane, Defense Secretary Caspar W. Weinberger chose Lockheed to build 50 more of the seriously flawed C-5.

Informed officials said Mr. Weinberger was influenced by White House pressure. Then, in a classic Pentagon action, it was decided to build the C-17, too.

On rare occasions, the Pentagon

equipment to the design for which the contract has been awarded. It is also common to request technology that has not yet been invented or engineered while proceeding currently with production and research.

These methods are very expensive, but the Pentagon argues that sticking with proven technology would result in obsolete equipment.

• Enhancing "program stability." This approach, given a high priority by the Pentagon bureaucracy, is defined as sticking to a weapon-buying plan so that efficient production rates can be established and prices gradually will go down. Military officials often cite this principle in urging Congress not to reduce budget requests.

What happens in practice is something altogether different, according to a series of studies conducted by Franklin C. Spinney, a Pentagon analyst. Mr. Spinney says the unit costs of weapons are nearly always higher than predicted. His view was disputed by his superiors, who have made strenuous, though unsuccessful, efforts to bar him from testifying to Congress.

The historical tendency to underestimate costs, which independent analysis say has accelerated, has had serious consequences. When the cost of all programs is understated because of what an official Air Force study called "unbridled optimism" or by outright collusion between the services and contractors to delude Congress, the eventual result is that appropriated funds cover neither the purchase of the planned number of weapons nor the cost of operating and maintaining them.

The path usually taken is to stretch the production of all items over a longer time period, a practice that inexorably leads to higher unit costs and, in turn, aggravates the problem in subsequent budget cycles.

Canceling some weapons programs instead of stretching all of them over a longer time period frequently has been suggested, sometimes by military officials themselves. But no matter how expensive a ballooning program may seem, the Pentagon usually has argued successfully that to kill a program would be to sacrifice money already spent.

Once initiated, a program also builds a powerful constituency in industry and therefore in Congress.

Army Suspends Payments to Hughes

The Associated Press

WASHINGTON — The U.S. Army has suspended monthly payments for overhead expenses to Hughes Helicopter Inc. pending an investigation of "serious charges of accounting irregularities," Army Secretary John O. March Jr. said Friday.

Mr. March said the payments of about \$30 million a month were suspended May 17 after a Pentagon audit cited "charges for unallowable costs, charges for duplicate costs and inadequate internal controls involving millions of dollars."

Hughes Helicopter, a subsidiary of the nation's largest defense contractor, McDonnell Douglas Corp., is the army's prime contractor for the AH-64 Apache helicopter.

ed from the armed forces as a whole.

Another possibility would be to allow the armed services to decide what weapons' capabilities should be and to perform final tests to ensure that those requirements were met. The interim steps would be taken out of the hands of those in uniform.

• Forcing the Pentagon to permit real competition. Calculations indicate that only about 6 percent of the dollar volume of contracts is assigned competitively. The investigative staff of the House Appropriations Committee reported that component prices fell, often spectacularly, in every case in which contracts were awarded competitively.

If signed into law, the Senate's measure requiring the military to use competitive bidding on most contracts could fall victim to bureaucratic sabotage. For example:

Although McDonnell Douglas' C-17 won a contest for design proposals for a new strategic airlift plane, Defense Secretary Caspar W. Weinberger chose Lockheed to build 50 more of the seriously flawed C-5.

Informed officials said Mr. Weinberger was influenced by White House pressure. Then, in a classic Pentagon action, it was decided to build the C-17, too.

On rare occasions, the Pentagon

More Arrests Seen In Navy Spy Case

By Philip Shonan
New York Times Service

WASHINGTON — The Federal Bureau of Investigation expects more arrests as it widens its inquiry into what some officials described as one of the gravest security breaches in the history of the U.S. Navy, officials said.

The spokesman said the FBI expected to arrest additional relatives and business associates of a retired navy communications specialist and his son who have been charged with smuggling secret documents to the Soviet Union.

"I would expect more charges against more people, associates of the father," said Bill Baker, the assistant FBI director for congressional and public affairs. "We think this ring is bigger than the two now charged."

The investigation centers on John A. Walker, 47, a former rear admiral who had access to detailed information about the movements of the U.S. and Soviet fleets in his 20-year naval career.

His son, Michael L. Walker, 22, was arrested Wednesday aboard the aircraft carrier Nimitz, which is now in Haifa, Israel, after investigators found a box with more than 15 pounds (6.8 kilograms) of secret material in the hull, according to law officials.

"Based on the duration of the espionage and the access of those who have been charged, you have to assume the damage they caused is substantial," Mr. Baker said.

The FBI had said it has information from two sources that John Walker had been spying for the Soviet Union for 15 to 18 years.

John Walker was arrested Monday after he left more than 120 secret navy documents at a wooded site in rural Maryland, the FBI said. Some documents, the bureau said, came from the Nimitz.

Officials and military analysts said that much more valuable information may have been collected by John Walker in his navy career. In the 1960s he served as a radio officer on two Polaris submarines. In 1967-69, he was a communications officer in the headquarters of

the Atlantic submarine fleet in Norfolk.

Then he trained radio officers at the Naval Training Center in San Diego. In 1974, he returned to Norfolk as a communications systems officer, with access to information about the surface fleet. He retired two years later.

Eugene J. Carroll, a retired rear admiral, said that radio officers also had knowledge of the codes used to send messages. If information about those codes were given to the Russians, national security might have been jeopardized, he said.

Because he had security clearance that gave him the ability to see highly secret documents, John Walker was probably aware of most major movements of the submarine fleet, officials said. That could be a threat to national security, they said, as submarines are otherwise difficult for an enemy to track.

Military analysts said information that John Walker might have collected before his retirement from the navy might have been much more valuable to the Soviet Union. For that reason, he may have been less important to them since he left the service, they said.

Captain James T. Bush, a retired submarine commander, said that it seemed unlikely that John Walker was "a serious spy" as he chose to retire after only 20 years. If he had been valuable, he said, the Soviet Union would probably have wanted him to remain in the service.

Still, Admiral Elmo R. Zumwalt Jr., the former chief of naval operations, said that if the charges against John Walker were true, "this would represent a breach of security as serious as I can imagine."

Ray Cline, a former deputy director of the Central Intelligence Agency, said, "Just from the description of his assignments, it's inconceivable to me that he did not have the opportunity to steal very sensitive data. From my reading of what has been said publicly, this is a very serious penetration."

— Spy Gets Life Sentence

A U.S. judge sentenced Thomas Patrick Cavanagh on Thursday to life in prison, the Los Angeles Times reported from Los Angeles.

The Norilsk Corp. aerospace engineer had pleaded guilty March 13 to two espionage counts of trying to sell secret information of the Stealth bomber program to the Soviet Union. The Stealth program is designed to make U.S. planes invisible to enemy radar.

— U.S. to Fire Laser Beam At Shuttle



Michael L. Walker

Reuters-LPI

By Michael L. Walker

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INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

Let Ratification Proceed

It is not news that some ultraconservative groups have long opposed ratification of the Genocide Treaty. For decades, alarmist lobbies and isolationist publications have been issuing warnings of the dire consequences that would befall Americans if the pact, signed 36 years ago, were ratified by the Senate. Innocent citizens, we were told, would be hauled off for criminal trials before the World Court and sent to prison in Iran or Nicaragua. American soldiers would be subjected to humiliating public trial by scheming Communists. Third World dictators would be able to override the U.S. Constitution. Such unfounded fears have led to the adoption of two reservations by the Senate Foreign Relations Committee, which reported the ratification resolution this week.

The treaty, which has been accepted by 96 nations, makes it an international crime to kill or seriously harm members of a religious, racial or ethnic group as part of a plan to destroy that group. If the United States were to ratify the treaty, Congress would then have to pass legislation implementing it. The World Court does have responsibility under the treaty to interpret its language, but since the court cannot conduct criminal trials or order sanctions

— THE WASHINGTON POST.

Radio War With Castro

Radio Marti, the Reagan administration's pet project for annoying Fidel Castro, has done just that. The station made its debut on Monday, Cuba's Independence Day. Instantly and angrily, Mr. Castro retaliated by suspending the only agreement Cuba has reached with this administration. The gate is now closed to legal emigration from Cuba and to the repatriation of 3,000 "excludables" with criminal records whom he dumped on Florida in the 1980 Mariel exodus.

Why is the Cuban leader so angry? There is not much inflammatory in the content of the new station. Congress stipulated that it provide news, not propaganda. It follows Voice of America rules that bar freewheeling commentary by exiles as on Radio Free Europe. Much of its coverage duplicates news carried on Florida's Spanish-language stations, which reach most of Cuba. What seems to inflame Mr. Castro most is the new station's name.

He has a half point. Jose Marti (1853-1895) is Cuba's prophet of independence, a gifted writer who agitated against Spanish rule and

— THE NEW YORK TIMES.

The Secretary Did Well

Secretary of the Navy John Lehman found that General Dynamics, America's third-largest defense contractor, had padded its bills. He insisted that it repay \$75 million in disputed "overhead" charges, the most memorable of which is a kennel fee for an executive's dog. He also found that the company had tried to buy favor by giving a series of gifts worth more than \$65,000 to Admiral Hyman G. Rickover when he was overseeing its work on nuclear submarines. Mr. Lehman fined the company \$676,283 — 10 times the value of the gifts — and gave the 83-year-old retired admiral a nonpunitive letter of censure. Mr. Lehman also canceled two contracts worth \$2.5 million with offending units of General Dynamics, and insisted that the company adopt a "vigorous code of ethics" for its officers in the future. He did not bar the chairman, David S. Lewis, from further defense activity, as the Pentagon's inspector general had urged. But a day later Mr. Lewis announced that he would resign by the end of this year.

Some Democratic critics of Mr. Lehman say that, if only as a deterrent to other contractors, he should have imposed harsher punishment. They talk of such alternatives as barring the company from defense work for a while. They note that General Dynamics stock went up 14 points the day after the secretary's action — a

— THE WASHINGTON POST.

Other Opinion

Generals Lead South Africa

[The South African] government has been forced to admit that South African troops are still operating deep in Angola. There was what was termed a withdrawal of all South African troops from Angola in the middle of April, but it seems that some got left behind. Their purpose, of course, is to continue to help UNITA in its guerrilla war against the Angolan government. Setting aside all the shortcomings of that government, it has plainly been double-crossed yet again by the South Africans.

Whatever we think of South Africa, reports of this episode, on the assumption that they

— The Daily Telegraph (London).

FROM OUR MAY 25 PAGES, 75 AND 50 YEARS AGO

1910: Three Striking Miners Killed
PHILADELPHIA — Striking coal miners in Wilkes-Barre, Pennsylvania, came into conflict with the State Constabulary guarding the works [on May 24]. Three strikers were shot dead and a large number injured. The strikers, most of them Slavs, are employees of the Pennsylvania Coal Company. Almost immediately following their refusal to go down the shaft on the day Halle's comet was nearest the earth, they raised objection to the company's method of weighing the product of their work. An attempt was made by several thousand men, led by several hundred striking women, to charge the works. Pickets armed with revolvers opened fire after warning the mob. This was answered by a fusillade of stones, and in self defense the constabulary opened fire.

1935: Average Life Span Passes 40
PARIS — The span of life is increasing. There are less children and more old men and women in the world today than there were at the beginning of the century. But if birth rates go on falling while the progress of medical science goes on lengthening the life period, a youthful world seems doomed to pass into the realms of poetic fancy. In reality, the picture is not so gloomy, thanks to the lowering of infant mortality. A hundred years ago the death rate of children under one year was more than double what it is now. If few children are coming into the world, more are assured of an adult existence. The average life, about 27 years a century ago, is now over 40 in most Western countries. Not long ago a man in his fifties or a woman in her thirties was considered "old."

— The Daily Telegraph (London).



The White Tribe Will Have No Negotiation

By Breyten Breytenbach

Mr. Breytenbach, the Afrikaans poet, was charged with terrorism and served seven years in South African prisons. This is the first of two articles.

The black majority cannot settle for anything less than full participation in the political, economic and social processes.

Nazis were a case in point. In none of these instances could international outrage end the horrors. Is it because moral persuasion has no political force? Or is it dangerously naive to expect some decency in the practice of politics?

In the case of South Africa, the hanky-panky between the Western powers, the discrepancies between words and deeds, can probably be ascribed to the sense of shame resulting from collusion. Or maybe the protagonists just don't care about world conscience. Are they not hardened pragmatists after all?

As the last white colony of any consequence, South Africa is a historical oddity. Although its history cannot be interpreted exclusively in colo-

nialist terms, its system does reflect the insensitivities and arrogance flowing from conquest and occupation. It would seem as if time passed by the Afrikaners, the ultimate settlers from a previous and picturesque epoch. In the folds of darker and more primitive ages they live an archaic contradiction: They are a people with a mission: they cling to the belief in predestination — which accounts for their obstinacy and fatalism — and yet they utterly reject the notion of historical determinism. They are a white African tribe tragically defending a superannuated vision of Western civilization, thereby dooming themselves and their values to extinction.

But the odds building up against them — demographic, or of blood debts if nothing else — do not favor them. There is no link between cause and effect. There is no limit to their cruelty. Their God has created, hierarchically. How terrible and wrathful. He provides, but if they do not follow His precepts, He will turn away. These believers know they can count on their allies because they are outlined against the background of a weak, corrupt Africa, because they will represent a resurgent anti-communism, because there is a reassertion of Western interests in the continent. They have allies even if they have to bribe or blackmail them.

(The Anglo-African whites, by and large, squall feebly behind the ramparts of Afrikanerdom — carping, but profiting hugely.)

White South Africa is the regional superpower

— flexing its strength, putting into operation its "forward policy" (the step following destabilization), practicing a virulent oppression that denies basic rights to the majority in the land. It is experienced by the rest of Africa as a perennial humiliation, a foreign evil. The relative apathy and silence of Africa reflects an impotence and dependence on Western economies.

The pat explanation is to blame apartheid. If that were so, redress would be simple. In Bishop Desmond Tutu's words: "Apartheid cannot be reformed, it must be dismantled." But what is apartheid? In the starkest terms: white minority power monopoly. This is the kernel condition deemed essential by the Afrikaners for their survival. They brook no negotiation. Apartheid as racial discrimination is only the means of maintaining this desired end. The pragmatists, or "new realists," are willing to jettison appearances of apartheid to retain true power.

It is equally clear that the black majority cannot settle for anything less than full participation in the political, economic and social processes, with equal privileges and responsibilities. The organized expression of unitary national consciousness has been muzzled since the early 1960s. Yet despite the white minority's best efforts — bannings, jailing, mass removals, depriving blacks of their citizenship, killing — this consciousness, resolutely anti-racist, is more alive today than ever before.

Given these two irreconcilable positions, what are the chances for an agreement embodying the minimum conditions acceptable to both for some form of cease-fire if not coexistence? Recently, in Washington, Elliott Abrams, outgoing assistant secretary of state for human rights, opposed an excessively somber reading of the situation.

Los Angeles Times.

Middle East: Converging Boots Stamp Out a Glow

By Flora Lewis

PARIS — Faint glimmers of hope

for Middle East peace talks have been stamped on again. A combination of continued intricate infighting among Arabs and unexpected Israeli indulgence for convicted terrorists has spoiled the climate all round.

The Israeli decision to exchange 1,150 prisoners for three captured soldiers has aggravated the situation.

The problem is not the number. It is the fact that 79 of the men released were directly responsible for murder, 380 of them had been tried, convicted and sentenced to life, and 600 were freed to return to their homes in Israel or proper or the occupied West Bank.

This is a change in the longstanding Israeli policy of refusing to pay terrorist blackmail. It is not a traditional exchange of prisoners of war.

Understandably, the operation

posed a painful moral dilemma for Israel.

The irony is that the exchange also

weakens what chance there was that Yasser Arafat, the PLO chairman, would compromise on terms for negotiations.

It was concluded with Ahmed Jibril, one of the most radical Palestinians, who has strong Syrian support. It has reinforced Mr. Arafat's argument that only extremism pays.

People are saying again that "Palestinians means killers." Mr. Eliezer reported, and this would make Prime Minister Shimon Peres "even more reluctant to accept talks."

The result was a compromise that took well over a year to reach, he said, and some prisoners who had been demanded were refused release by Israel. But the mood in the country has made most people even more adamant against negotiating with any Palestinians who might be included in a Jordanian delegation.

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ARTS / LEISURE

Orientalist Kitsch Fetches Record Prices

International Herald Tribune

NEW YORK — One of Sotheby's most unlikely gambles came off Wednesday when the "Important Orientalist Paintings from the Collection Coral Petroleum, Inc." realized \$7.1 million, leaving only three lots, valued at a negligible \$61,500, unsold.

The world record for an kitsch painting, Orientalist or not, was established when a picture by John

SOUREN MELIKIAN

Frederick Lewis, called "An Intercepted Correspondence" went up to \$1,265,000, including commission. It had been acquired at Christie's in London for \$247,000 (then about \$500,000) five years ago, which was considered wildly overpriced then. Similar records were established for Jean-Léon Gérôme, at \$440,000 paid for a "Muezzin Calling the Believers to Prayer from the Top of a Minaret" and for Ludwig Deutsch, when "Praying in the Tomb Chamber" went up to \$115,500.

Asked how he felt about the sale, the Sotheby's expert Alexander Apsis, who did a wonderful job could only reply: "Eccentric." Relief was audible in his tone as Apsis conceded, in one of Sotheby's rare cases of understatement, that the sale had been "a bit of a gamble." Indeed there were reasons why the sale could have ended in disaster.

The pictures had all been bought within the last eight years or so. On reading in the preface that the "collection" had been formed under the auspices of Coral Petroleum's chairman, David B. Chalmers, one felt convinced that it was, at best, a

company investment. The "collection" gave the feel of a collective compromise with a bit of everything in it.

But overriding other considerations was the nature of the pictures. Many looked like parodies, like so much else of 19th-century academic art in general and of its so-called Orientalist sideline in particular.

Starting with "Music in the Harem" by the obscure Russian artist Vincent Stiepevich, it went on with a work of the Austrian painter Eduard Ender called "Der Liebling des Pascha" (The Pasha's Beloved) and, shortly after, veered rather abruptly to the great Romantic master Eugène Delacroix with "Chevaux sortant de l'abreuvoir" (Horses Leaving the Watering Place). The title hardly conveys the stormy atmosphere of a landscape in the Algerian highlands at sunset.

It shows a horseman wearing the

baggy trousers and waistcoat in the Turkish fashion still prevalent in the early days of the French occupation of Algeria, who is trying to steady his rearing horse while leading away another repressive steed. The dim figure of a warrior, spear in hand, appears in the distance. Painted in 1857, the picture is done in nervous, vibrant strokes with more than a touch of Turner's influence, heralding the brushwork of Impressionism 15 years later. It is, in short, a remarkable work by a remarkable master, a far cry from the bland picture postcards of Stiepevich, Ender, et al.

After that the sale veered abruptly to the harsh realism of the American painter Edwin Long Weeks. His view of "Camels Watering at a Desert Well," dated 1878, is perhaps not the greatest work of art, but it has a strong atmosphere. The whitish sand strewn with a few rocks under the intense blue sky of the Saharan desert and its pinkish

wisps of shredded clouds at dawn on a spring day, the three low wells of roughly carved stone with two camels standing by, watched by their dark-skinned driver in ragged blue robes, the silhouette of a woman crouching on the rim of a cistern as she pulls up water — all this has the appearance of a genuine document.

The contrast with the next landscape, done in 1840 by the Swiss artist Johann Jakob Frey, is extreme to the point of absurdity. "Blitz aus der Römischen Wasserleitung in Thugga" (View From the Roman Aqueduct at Thugga, or Dougga, near Teboursouk in Tunisia) is carefully composed in the neoclassical manner with all the idiosyncrasies of neoclassicism, however ill-suited to the subject matter.

The foreground, with its growth of spiky leaves and cactuses, manages to be dark against all probability in the glare of sub-Saharan sunlight, because Claude Lorrain had dark foregrounds in the 17th century and his early-19th-century French imitators decided theirs would be too. In the distance, the tiny figure of an Arab woman in white veils riding a donkey has a touch of the "Flight to Egypt" about it. A pale blue strip of sea lined by low marshy hills appears on the horizon with the remains of an aqueduct, making it the perfect exotic chocolate-box image.

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Lewis's "An Intercepted Correspondence" (detail).

Cairo's Nightbirds Flock To Glittering New Disco

By Judith Miller
New York Times Service

CAIRO — Two days after the gala opening of Régine's, Cairo's latest discotheque, Egypt's parliament voted to review the country's laws "systematically and scientifically," to eliminate those inconsistent with Islamic law.

Sharia, as the 1,300-year-old Islamic code is known, frowns on alcohol, gambling and the night-club life — all of which have helped to make Cairo the playground and religious critics contend, the vice capital of the Arab world.

But the assembly's action has done little to dampen the enthusiasm of Egyptians for night life.

"We only had about 50 Egyptian members when the club opened on May 2," Leila Bamy, the club's representative, said. "Now we have more than 100."

The club, in the El Gezirah Sheraton overlooking the Nile, is the first of the chain of nightclubs restaurants to open in the Arab world, and Régine can the ribbon and slice the cake. Régine Choukroun, who was born in Belgium and is Jewish, said she had achieved her ambition to become "an international person."

Egyptians say Moustafa Abuaiwa, the Palestinian-born owner of the club, paid 300,000 Egyptian pounds, or about \$360,000, for the use of Régine's name.

This is one of the few Arab capitals where such a club could exist, given the growth of Moslem fundamentalism and curbs on the sale of alcohol.

Many guests predicted that Egypt would never adopt Sharia. "It's simply not Egyptian," said one Cairene in an Islamic-style jeweled headdress.

But last week an Egyptian judge approved the consignment of 3,000 copies of an uncirculated edition of "A Thousand and One Nights" on the ground that the classic contained obscene passages.

Régine's gala was postponed at least three times, Egyptians said, while the Panamanian-registered company battled Egyptian customs, which delayed the importation of the strobe lights and stereo sound system.

The club is a masterpiece of disco art. The ceiling is composed of small squares of mirror tiles, and a giant revolving mirrored strobe light hangs above the dance floor. The deep blue velvet chairs and banquettes provide a view of the dance floor and the Nile.

Egyptian women in tight sequined gowns with un-Islamic décolletage

colleagues danced to the music of Michael Jackson, Tina Turner and Madonna. For the men dress was black tie, or as the invitation suggested, "elegance."

An Egyptian cabinet member attended, but he asked that his name not be published. A member of the Moslem Brotherhood, the Islamic fundamentalist political party that is advocating the adoption of Sharia in Egypt, held watch outside.

He scowled at the bare backs and exposed knees. "These people don't belong in Egypt," he complained. "This is decadent."

Decadence in Egypt is expensive. Membership in the club costs 1,500 Egyptian pounds, three times what the average Egyptian makes a year.

The opening-night guests included Iman, a blond actress known for her portrayals of the seductive women who temporarily steals husbands from devoted but less attractive wives. "It's a wonderful addition to our night life," cooed Iman, whose real name is Louise Sakiyan.

None of the more than 25 celebrities invited to the opening, among them Ursula Andress, John Travolta, Brooke Shields and Julio Iglesias showed up. But the club assembled eight of what it called the "most beautiful women in the world."

Among them was Miss Egypt, who was Miss World of 1954 and who declined to give her age. She was delighted to be back.

"I'm married and live in Rome," said Antonia Costanda, an Alexandria-born beauty of Greek origin, adding with a sigh, "It's nice to see a little of the old zest and gaiety back in Cairo again."

Dutch Museum to Show Rembrandt Drawings

The Associated Press

AMSTERDAM — Fifty Rembrandt drawings that have not been shown to the public for as long as 100 years are to be displayed at the Rijksmuseum here next month.

The works are among 60 drawings by the 17th-century painter that the museum acquired over the last century, and date from every major period of his life. They illustrate his experimentation with various techniques and media, including pencil, charcoal and pen, and include a study for his painting "The Syndics: The Sampling of the Amsterdam Drapers Guild," which hangs in the Rijksmuseum.

Not only has the so-called "collection" no aesthetic unity, but it does not show any concern for documentary value. How could such a motley assortment do so well? ApSimon explained that "new buyers" the current obsession at Sotheby's, played a key role. "The buyer of the Lewis has never bought anything in our rooms," was his way of putting it. And it would seem to take a virgin mind, unaware of such considerations as the current prices for truly great paintings, to pay such an enormous amount for that picture. Sotheby's would not release

his name nor even his nationality.

Other buys were as stupendous

even if the money involved was not

nearly as much. There is absolutely

no sense of proportion to the

\$159,500 paid for Deutsch's "The

Nubian Guard" or the \$308,000

offered for Gérôme's "Return from

the Hunt."

On the other hand there

is no little irony in the fact that the

Delacroix, a rather remarkable

painting for its brushwork, should

have made only \$236,000. Perhaps

Sotheby's "new buyers" never

heard of the man.

The results look well on Apsis's record. It is useful to Sotheby's finances after the Gould perfor-

mance. But it will not help the market at large. Too many people

appear to have lost their sense of

orientation.

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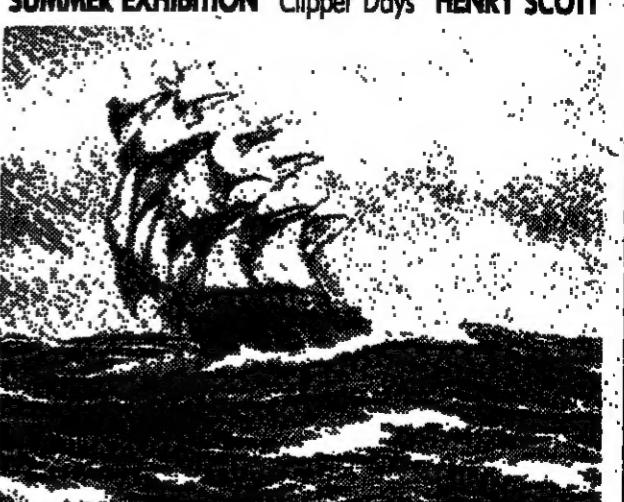
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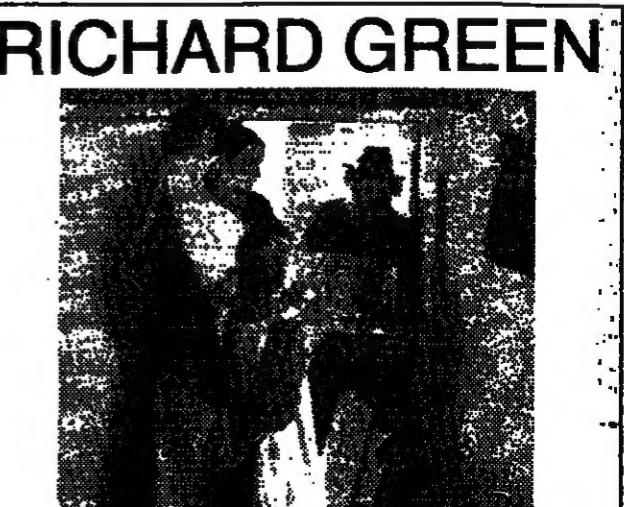
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Odilon Redon's "Cactus Man" (detail).

The 'Holy Torment' of Odilon Redon

By Michael Gibson
International Herald Tribune

BORDEAUX — "A painter who has found his technique," Odilon Redon wrote in his journal, "does not interest me. He knows nothing of the holy torment whose spring is in the unconscious; he has no expectation of what is yet to be. I love that which never was."

Born in Bordeaux, raised on the Allées Damour (which he wrote of as "T'Amour") and later among the somewhat gloomy marshes, ponds and vineyards on the flatlands of Peyrehèbre, his parents' estate, Redon (1840-1916) was constantly in search, not only of his technique but also of his substance. This searching makes him admirable at times and, at times, uneven.

It also made him something of an esteemed outsider in the art of his period. He loathed the academic style and suffered briefly under Jean-Léon Gérôme at the Académie des Beaux-Arts in Paris. He admired Gustave Moreau but deplored Moreau's inability to shake off standard academic rhetoric. He did not address the real issues of art.

He followed his own singular adventure, which sees here in its full scope, can strike one as a tremendous crescendo from the dark, dreamy anguish of his earlier work, all in black and white, to the later luminous, coruscating pastel and oil colors of the later part of his career.

Bordeaux is devoting an important show to Redon at the Galerie des Beaux-Arts, with 244 works from museums and collections in Europe, the United States and Algeria.

A display of 23 works at the city museum is devoted to Rodolphe Bresdin, an equally singular artist, who gave the young Redon the

technical points and impetus he needed at the start of his career. Redon's father had made his fortune in New Orleans before returning to settle in Bordeaux. In time the family bought a vint

NYSE Most Actives						
Vol.	High	Low	Last	Chg.	Per.	Close
DowCh	14334	3378	3242	3256	+11	
PortAm	12251	524	512	512	+12	
RecAir	11158	575	575	575	+12	
Modis	7951	125	125	125	+12	
HawPac	7950	325	325	325	+12	
PNP/Pet	7223	275	275	275	+12	
Comve	7222	255	255	255	+12	
ChemNY	2451	415	415	415	+12	
PhileEl	7133	145	145	145	+12	
Dams	595	32	32	32	+12	

Dow Jones Averages						
Open	High	Low	Last	Chg.	Per.	Close
Indus	10200	10150	10150	10150	+10	
Trans	40171	40150	40150	40150	+10	
Util	14250	14250	14250	14250	+10	
Transport	14250	14250	14250	14250	+10	
Finance	33348	33265	33265	33265	+10	

NYSE Index						
High	Low	Close	Chg.	Per.	Vol.	Prev.
Composite	124.11	123.73	123.11	+0.43		
Industrials	124.11	123.73	123.11	+0.43		
Transport	124.11	123.73	123.11	+0.43		
Utilities	124.11	123.73	123.11	+0.43		
Finance	116.82	116.64	116.81	+0.09		

Friday's NYSE Closing						
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AMEX Diaries						
Class	Prev.	Vol.	High	Low	Last	Chg.
Advanced	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Declined	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Total Issues	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
New Flats	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
New Tops	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Volume up	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Volume down	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11

NASDAQ Index						
Class	Chg.	Prev.	Vol.	High	Low	Close
Composite	267.75	-0.12	104,243	267.75	267.75	267.75
Industrial	267.75	-0.12	104,243	267.75	267.75	267.75
Finance	267.75	-0.12	104,243	267.75	267.75	267.75
Utilities	267.75	-0.12	104,243	267.75	267.75	267.75
Transport	267.75	-0.12	104,243	267.75	267.75	267.75

AMEX Most Actives						
Vol.	High	Low	Last	Chg.	Per.	Close
GRFC G	560	515	515	515	+10	
WORL	515	515	515	515	+10	
WORL D	515	515	515	515	+10	
Detco	125	125	125	125	+10	
TIT	125	125	125	125	+10	
Astro	125	125	125	125	+10	
Int'l P	125	125	125	125	+10	
Int'l M	125	125	125	125	+10	
Amoco	750	750	750	750	+10	
Karp	750	750	750	750	+10	

Dow Jones Bond Averages						
Close	Chg.	Prev.	Vol.	High	Low	Close
Bonds	212	+0.01	100,000	212	212	212
Utilities	212	+0.01	100,000	212	212	212
Industrials	212	+0.01	100,000	212	212	212

NYSE Diaries						
Class	Prev.	Vol.	High	Low	Last	Chg.
Advanced	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Declined	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Total Issues	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
New Flats	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
New Tops	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Volume up	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11
Volume down	2,177,725	2,177,725	2,177,725	2,177,725	2,177,725	+11

Odd-Lot Trading in N.Y.						
Buy	Sales	Chg.	Prev.	Vol.	High	Low
May 23	213,971	47,470	889	10,000,000	213,971	213,971
May 22	208,972	47,470	1,218	10,000,000	208,972	208,972
May 21	204,973	47,470	1,242	10,000,000	204,973	204,973
May 20	204,973	47,470	1,242	10,000,000	204,973	204

JORDAN

A SPECIAL REPORT

SATURDAY-SUNDAY, MAY 25-26, 1985

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U.S. Shifts Role in Bid For Peace In Region

By Bernard Gwertzman

WASHINGTON — Once more there is talk of bringing peace to the Middle East, and once more Jordan and the United States are involved in drawn-out discussions about what to do next. This has been happening intermittently for 18 years. And, understandably, there is considerable skepticism in the United States and in the region that anything will come of the latest effort.

What makes this set of discussions different, however, from the abortive efforts of the past is that for the first time, King Hussein of Jordan, in collaboration, albeit uncertain, with Yasser Arafat, the leader of the "moderate" wing of the Palestine Liberation Organization, has taken the initiative. The United States, rather than serving as a catalyst in the Middle East, now is reacting.

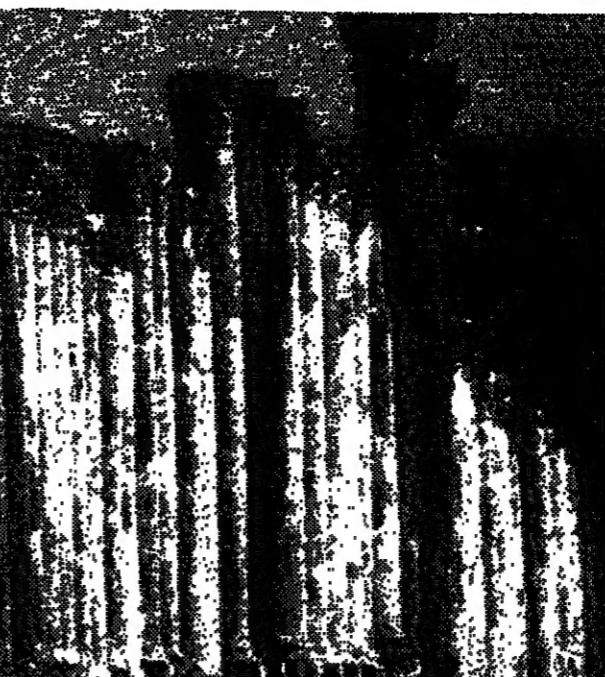
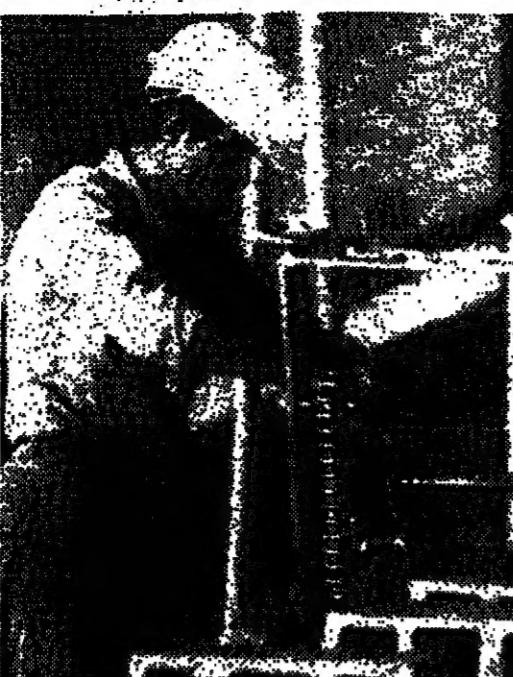
And it is reacting with exceeding caution. Having been frustrated so often in the past, most recently a year ago, when King Hussein erupted in anger at Washington, and two years ago when the king gave up on peace talks when Mr. Arafat altered his position at the eleventh hour, the Reagan administration is wary of the Hussein-Arafat set of proposals.

Secretary of State George P. Shultz, who is charged with following up on the plan, in particular seems less than enthused by the Jordan-PLO approach to the peace effort. On a recent trip to the Middle East, where he spent several hours with King Hussein in the port city of Aqaba, Mr. Shultz asserted that there was a "genuine sense of movement" in the region, but also many "hard problems" to solve. King Hussein, who was to visit President Reagan on May 29, while in the United States to see his son graduate from Brown University in Providence, Rhode Island, has been pressing Washington to be more supportive.

"For the first time since Israel invaded and captured the West Bank, including East Jerusalem, Gaza and the Golan Heights, 18 years ago, there exists an unprecedented opportunity for the parties involved to reactivate the peace process, based on the return of territory in exchange for peace," King Hussein told an Arab-American group on May 4 in a speech delivered via satellite. "This opportunity should not be missed. It is an opportunity that I know will never come again if we fail now."

There is, of course, a very special relationship between King Hussein and the United States not shared by any other leader in the Middle East. All the other heads of state who ruled in the Middle East at the time of the 1967 Arab-Israeli war have passed from the scene. And, one, King Hussein still relives

(Continued on Page 10)



From left, a brick and tile factory near Amman, workers atop a cement factory in Rashadiya, and columns at the Roman city of Jerash. Articles inside.

Despite Drop in Reserves, Economy Keeps Its Balance

By Alan Mackie

AMMAN — It is difficult, driving through the prosperous suburbs of Amman, to imagine Jordan in the throes of a financial crisis. But by any normal criteria it is — and in a major one too.

Since the beginning of the year, the Central Bank's reserves have halved to less than two months of exports — a situation that would have most countries raising interest rates, imposing exchange controls and, at the least, calling in the International Monetary Fund.

But Jordan's situation is anomalous. The economy has survived in a state of irregular equilibrium for so many years now, supporting a chronic trade deficit balanced more or less by inflows of Arab aid and workers' remittances, and caught, too, between the political and military maneuverings of Israel and Syria and the changing kaleidoscope of inter-Arab politics, that setbacks tend to be taken for granted, while its international credit has remained good. The foreign public debt is no more than \$2 billion, with no commercial borrowing, and the debt-service ratio is an acceptable 21 percent. The international community is not going to get worried until that credit is exhausted.

There were special circumstances that created the run on reserves. Payments for military equipment and other imports were "bundled" with no compensatory receipts. But most importantly, a \$125-million export credit arranged with Iraq was run up to \$190 million, and Baghdad was slow in honoring it. The situation has eased now with the deliveries of Iraqi oil to the Zarqa refinery, but it placed an acute strain on the Central Bank's reserves, which fell by a total of \$37 million in February and March to \$370 million — and further still in April.

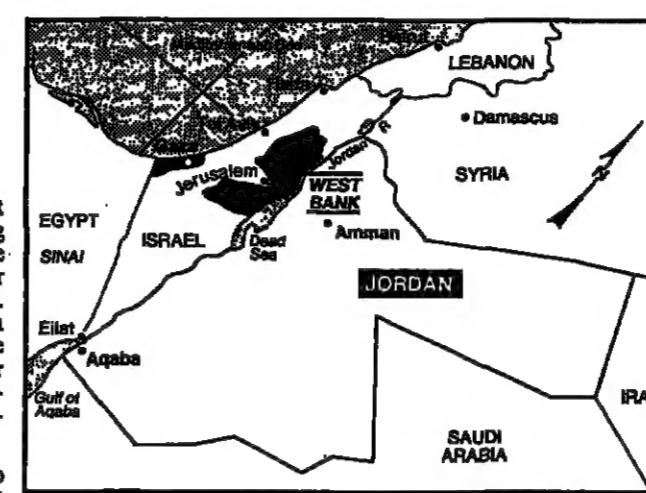
Remittances have kept up well, at \$2 billion a year (roughly split between transfers through the banking system and cash) but their composition is changing. They have been maintained by imaginative new incentives to attract savings of those returning for good. But the numbers of Jordanians finding work abroad is diminishing.

Largely because of a recovery in phosphate sales and a good export performance by the manufacturing sector, the trade deficit dropped 17 percent in 1984 to \$2.03 billion.

Largely because of a growth in phosphate sales and a good export performance by the manufacturing sector, principally because of a recovery in exports to Iraq, the trade deficit dropped 17 percent in 1984 to \$2.03 billion. Considering the

high priority being given to export promotion and the encouraging short-term outlook for phosphate markets, the prospects for further improvements in export are good. But exports, at \$756 million, are a fraction of imports. Containing the import bill at \$2.79 billion last year was only achieved by falls in capital goods and raw-material imports.

As things were, something had to give. The government could not stimulate the economy without embarking in earnest on deficit financing and dragging itself further into ownership and control of the economy. For a country where 70 to 80 percent of government expenditure translates into imports, this



The New York Times

course was a recipe for disaster. As it was, the creeping nationalization of the past six years — when the government consciously took the lead in promoting development — had left the economy increasingly

(Continued on Page 9)

Hussein Makes The Rounds for Peace Effort

By Julian Nundy

AMMAN — King Hussein, who acceded to the Jordanian throne 35 years ago this month, has marked the anniversary with a hectic diplomatic round to give new impetus to Middle East peace moves.

The eventual aim is to obtain self-determination and a homeland for the Palestinian people in exchange for peace with Israel.

His country has been among those that have taken the brunt of the Middle East conflict, and some 60 percent of his estimated 2.5 million citizens are of Palestinian stock. These factors put Jordan in a uniquely central position in the Arab-Israeli dispute.

The king, who is due to meet with President Ronald Reagan in Washington on May 29, has been touring the Arab world to explain his view that a recent accord between Jordan and the Palestine Liberation Organization on a joint peace strategy is the region's "last chance."

The agreement was reached on February 11 after two years of attempts to work out a common strategy to respond to President Reagan's proposal of September 1982 — rejected by Israel — for a degree of Palestinian autonomy under Jordanian guarantees.

King Hussein, in addition to his Arab and Washington visits, is to go to London. The PLO chairman, Yasser Arafat, recently headed a Jordanian-Palestinian delegation to China. Other PLO and Jordanian envoys are visiting the Soviet Union and France.

Jordanian officials stress that there are a few rays of hope in the Middle East these days, although the major obstacles to a settlement remain seemingly unsurmountable. But they also emphasize that they view evidence of quick progress to be essential if the region is not to undergo a destructive phase of radicalization, bringing new acts of terrorism in its wake.

The main stumbling block in the way of the Jordanian-PLO plan is who would represent the Palestinians living on the occupied West Bank and Gaza Strip.

For the Arabs, there is no doubt.

(Continued on Next Page)

Aqaba Expands as Resort and Trade Hub

Reconciling and balancing interests and activities of tourism, industry and commerce along a coastline of only 27 kilometers requires careful planning...

By Arne Counsell

AQABA — The once-sleepy fishing port of Aqaba at the southernmost tip of Jordan became a focal point this month when U.S. Secretary of State George P. Shultz arrived for talks with King Hussein on Middle East peace. On April 26, the flags were out for the inauguration of a ferry-boat link between Aqaba and the Egyptian port of Nuweiba in Sinai when King Hussein, Sultan Qaboos of Oman and President Hosni Mubarak of Egypt converged in the port city for the opening ceremony and a tripartite summit meeting.

However, long-term development plans aim to ensure that Aqaba is more widely recognized and well-known for reasons other than periodic meetings. The Aqaba Region Authority, an umbrella for the social and economic development of the area, has recently drawn up a 380-million-dinar (\$1-billion) five-year plan to promote the Red Sea

as a tourist resort as well as industrial and trade center. This figure, which is equal to the amount invested in Aqaba in the past 30 years, indicates just how much importance is being placed on developing the region's potential.

The task of reconciling and balancing the diverse interests and activities of tourism, industry and commerce along a coastline of only 27 kilometers (16.2 miles) requires careful planning and rational expansion. This task was designated to the Region Authority when it was established in January 1984 as part of a government move toward decentralization. In effect, the authority is an "experiment" in socio-economic development and, if successful, could lead to other similar regional authorities that would relieve central government of much detailed paperwork.

The authority's president, Mohammed Said

(Continued on Page 11)



At Aqaba's port, room for swimmers and freighters.

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Arab Bank Limited Group: Balance Sheet as of 31 December 1984		31/12/1984	31/12/1983
Assets		US\$	US\$
Cash in hand and at banks		7,477,416,230	7,480,085,117
Items in transit		9,906,122	—
Securities and investments		457,778,917	397,450,781
Investments in associated companies		156,039,936	123,949,214
Bills discounted		188,963,271	194,851,284
Loans to customers		2,114,723,590	1,976,043,687
Bank premises		27,898,826	33,658,068
Furniture & equipment		26,618,917	25,223,721
Customers' liability on acceptances		44,171,163	43,435,355
Other Assets		128,525,900	95,382,678
Total Assets		10,632,042,872	10,370,079,905
Customers' Liability on guarantees and letters of credit		1,778,929,001	1,974,846,067
Total		12,410,971,873	12,344,925,972

* Decreases in the 1984 figures are apparent. They resulted from the rise in the dollar value against all other currencies.

Profit and Loss Account for the year 1984		1984	1983
		US\$	US\$
Operation Income		974,397,387	881,374,384
Interest received		57,621,457	757,358,312
Less interest paid		86,528,490	104,716,028
Net interest		36,890,301	34,737,319
Commissions		31,882,333	26,703,004
Difference on exchange		54,211,000	34,058,686
Other Income		220,033,807	198,151,061
Total Income			
Salaries		52,190,985	53,355,037
Depreciation of premises and equipment		4,321,154	4,321,154
Taxes		23,278,537	13,100,008
General expenses and provisions		74,382,572	62,167,572
Total Expenses		155,030,500	134,680,949
Net profit before appropriation		6,860,487	5,677,055
Retained earnings brought forward		31,570,858	34,434,112
Total		96,594,497	39,107,220
Deduct appropriations:			
Transfer to general reserve		5,040,050	9,057,000
Transfer to voluntary reserve		17,283,000	16,152,000
Dividends proposed		12,346,000	12,346,000
Other appropriation		3,223	20,725,400
Retained earnings carried forward		41,472,522	39,877,472

Notes to Group Accounts

Group accounts prepared for the year 1984 deal with the accounts of Arab Bank Ltd., its subsidiaries and associated companies. The accounts of the Arab Bank (Switzerland) Ltd., a Swiss Company wholly owned by shareholders of Arab Bank Ltd., are also included.

In the Group accounts intercompany transactions have been eliminated, while investments in associated companies (20% to 50% ownership interest) are carried following the equity method of accounting.

The main entities involved in the group accounts in addition to Arab Bank Ltd. are the following:

—Arab Bank (Switzerland) Ltd., wholly owned by shareholders of Arab Bank Ltd.

—Arab Bank Investment Co. Ltd., London, wholly owned subsidiary.

—Arab Tunisian Bank — 62.4% owned by Arab Bank Ltd.

Associated companies Percentage Ownership

Arab Bank Maroc 50

Oman Arab Bank 49

Arab National Bank - Saudi Arabia 40

Nigeria - Arab Bank Ltd. 40

UBAE Arab German Bank 37.45

Arabia Insurance Co. 36.67

The appropriation account relates to Arab Bank Ltd., as no appropriation has yet been decided with respect to the accounts of other entities included.

Exchange rates prevailing at year end have been used to translate balances denominated in various currencies to Jordanian Dinars and US Dollars.

Banking Sector Awaits Upturn In the Economy

By Iain Jenkins

LONDON. — The Jordanian banking sector is being hit by the slowdown of the economy and Central Bank regulations that are biting into lending margins. This was reflected by a sharp fall in profits for nearly all the banks in 1984, which is expected to be repeated this year.

At the same time, uncertainty about the regulations affecting foreign banks following the scrapping of indigenous banking is unsettling many bankers. But it is hoped that the new government of Prime Minister Zaid Rifai will lift the economy and assist the strained banking system.

The dip in economic growth to 4 percent in 1984, compared with 8 percent for the past decade, has seriously reduced banking activity and eroded profits. Only the largest local bank, Arab Bank, substantially increased profits in 1984 and this was largely due to exceptionally high provisions in 1983.

The profits of the other eight Jordanian banks fell by 12 percent to 13.3 million dinars (\$34 million) in 1984, and the seven smaller international banks recorded an 11 percent slide in profits, to 3.1 million dinars. And Grindlays Bank made a sizable loss for the second year running.

Bankers blame the Iran-Iraq war and the fall in official aid from the rich Gulf Arab states for the economic downturn. On top of this remittances from Jordanians working in the Gulf have fallen sharply. This has cut the growth of bank deposits as well as affecting the economy.

The rigid interest-rate structure, which has reduced lending margins to only 1 1/4 percent, has contributed to the difficulties facing bankers. Central Bank restrictions place a 10-percent ceiling on bank lending at the same time as increasing the costs of funds by setting a minimum rate for deposits of 3 1/4 percent.

Michel Mati, deputy general manager of the Bank of Jordan, said: "The interest-rate system means that banks cannot distinguish between top-quality borrowers and high-risk borrowers." He added that he would like to see a slackening of interest rates.

Mohammed Said Nabulsi, the

governor of the Central Bank of Jordan, is not sympathetic to this view: "In principle, we would like to see interest rates deregulated, but the evidence is that it would lead to interest rates spiraling upward."

Some bankers also complain about a liquidity squeeze that is straining their lending ability. This comes at a time when many banks have reached their lending limits of 70 percent of total deposits.

The squeeze has been caused by a tightening of monetary policy — with money supply growing by only 1 percent in 1984. Bankers say that Central Bank rules forcing banks to tie up a proportion of their capital and deposits in local shares on the Amman stock market and in Treasury bills has compounded the problem.

But Mr. Nabulsi said: "The word liquidity has been abused in Jordan. It is used by many banks simply as an excuse for not lending."

He added that relaxing the money-supply would stoke inflation and that banks can refinance bonds with the Central Bank to ease any liquidity squeeze.

The result of the liquidity squeeze and the tight lending margin has been a fall in lending to the construction and transport sectors, particularly to small private-sector borrowers. This has been accompanied by an increasing emphasis on the safety of state-owned corporations, sovereign lending and government-guaranteed loans. Government debt is also tax exempt, which makes it more attractive.

Foreign banks have had their problems exacerbated by uncertainty about regulations affecting them. One of the first moves of the new government in mid-April was to scrap the policy of indigenous banking. This had obliged international banks in Jordan to become 51-percent Jordanian-owned.

Chase Manhattan's local manager, Steve Cryser, said he was "absolutely delighted" that the indigenization clause had been lifted. The six other international banks — Grindlays, Citibank, the British Bank of the Middle East, Bank of Credit and Commerce International, Rafidain Bank and Bank al-Mashreq — also welcomed the move.

But the foreign banks now fear that they could fall afoul of another



Customer service at the Jordan Investment Bank.

Central Bank regulation that requires all local banks to raise their capital to the equivalent of at least \$13 million. The rule did not originally apply to international banks because the indigenization clause would have taken their capital over the minimum capital requirement.

Now that the clause has been revoked, the foreign banks, capitalized at 3 million dinars, are beneath the requirement. "I see no reason that there should be any discrimination between foreign and local banks," Mr. Nabulsi said.

It is unnecessary for foreign banks to have any capital outside their country of incorporation, let alone to have to increase it," one

international banker in Amman said. "The only logic of increasing our capital is to boost the lending potential, but many international banks in Jordan are under-capitalized," another banker said.

In a bid to restore growth, foreign and local banks appear to be adopting different tactics. "The Jordanian banks will concentrate on their better clients often at the expense of higher-risk, smaller clients," one local banker said. And a foreign banker noted that foreign banks will play to their strengths by building on their international networks.

The Central Bank has felt for some time that Jordan may be overbanked. Mr. Nabulsi said that he favors mergers and that two banks are holding merger talks. The Central Bank is encouraging the developing of investment banking institutions. Six merchant banks have sprung up since 1982 and they are expected to start making a significant impact in the next few years.

But a sustained recovery in the banking sector depends on the turnaround of the Jordanian economy, and many bankers are convinced that Mr. Rifai could do the trick. He is committed to encouraging private enterprise, and there is an air of optimism in the business community.

Despite Drop in Reserves, Economy Keeps Its Balance

(Continued From Page 7)
Stylized hairdressers in response to a complaint in the local press by a government employee about his wife's hairdressing bills.

A sharp, decisive break was needed. In recalling former Prime Minister Zaid Rifai, a staunch advocate of the private sector, King Hussein signaled a change of tack.

The new administration intends to exploit the breathing space provided by the country's good credit by bringing the private sector back into the center of wealth-generating, relying implicitly on it to regenerate the economy and limiting its own role to providing the right environment in which the private sector can marshall its skills, resources and capital.

The private sector's initial response to the new government has been positive and enthusiastic.

Even when the drain on reserves was most acute there was little flow of capital out of Jordan. Now, the stock exchange seems poised for a slow, sustained recovery judging by the way daily trading volumes have been picking up.

The new trade, supply and industry minister, Rajah Musbher, wants the private sector to take over the public sector eventually.

But it is felt that he will have to tread warily initially, keeping confidence buoyant by making changes where changes can be quickly made, without compromising his options in developing a long-term strategy.

The process of consultation with the private sector is well estab-

lished. The new economic team has met with all the main bodies representing the private sector, and the first moves to sweep back the public sector have been made. The encouragement of Investment Law is to be refined and modified, offering even more inducements to investors. The state-run agricultural marketing company is to lose its franchise, enabling farmers to sell their produce independently, and the Ministry of Supply has lost its monopoly to sell apples.

The indigenization clause stipulating that foreign banks be at least 51-percent Jordanian-owned has been lifted, days after the Central Bank's governor, Mohammed Said Nabulsi, who instigated the program, left the country for medical treatment. Mr. Nabulsi's 12-year tenure as governor has helped the Central Bank to become a major force in financial policy-making — to the chagrin of his critics who feel that by appropriating the functions of the Finance Ministry the Central Bank has contributed to the contradictions and indecision in fiscal and monetary policy-making.

Mr. Nabulsi's stewardship has guided the remarkable growth of preferential credit treatment for the public sector, a preference the private sector is pressing hard to have redressed, and he has been criticized for making the recession worse by his dogged adherence to tough monetary targets. Although the growth in current expenditure has been kept to a creditable 2 percent a year, the government has only managed to keep the budget

more or less in balance by cutting capital expenditure by 5 percent a year over the past three years. The 1981-85 five-year plan is, therefore, likely to be 30 percent underspent. Growth rates have halved from 8 percent since the beginning of the decade and the preliminary estimate for 1984 is 3.5 percent.

Four percent is probably the most that the economy can manage with even, balanced growth over the next five years. Analysts will be watching to see whether the new government lowers its sights to more realistic growth rates when formulating the 1986-90 five-year plan.

They also will be looking to see

how far the new, upgraded Ministry of Planning will be able to implement an integrated plan. Ineffective planning is blamed for many of the shortcomings of the current five-year plan and for inefficient use of resources.

But they face a dilemma in falling growth rates. The population is increasing at 3.5 to 5 percent a year and the demand for jobs is growing at 6 percent. The World Bank estimates that Jordan will be able to find jobs for less than half the people coming on the job market even if the economy grows 5 percent a year.

There is some absorptive capacity if Jordanians were prepared to take jobs currently done by expatriates. There are from 110,000 to 120,000 Egyptians working in Jordan alone. The authorities are tackling the problem by introducing a

(Continued on Next Page)

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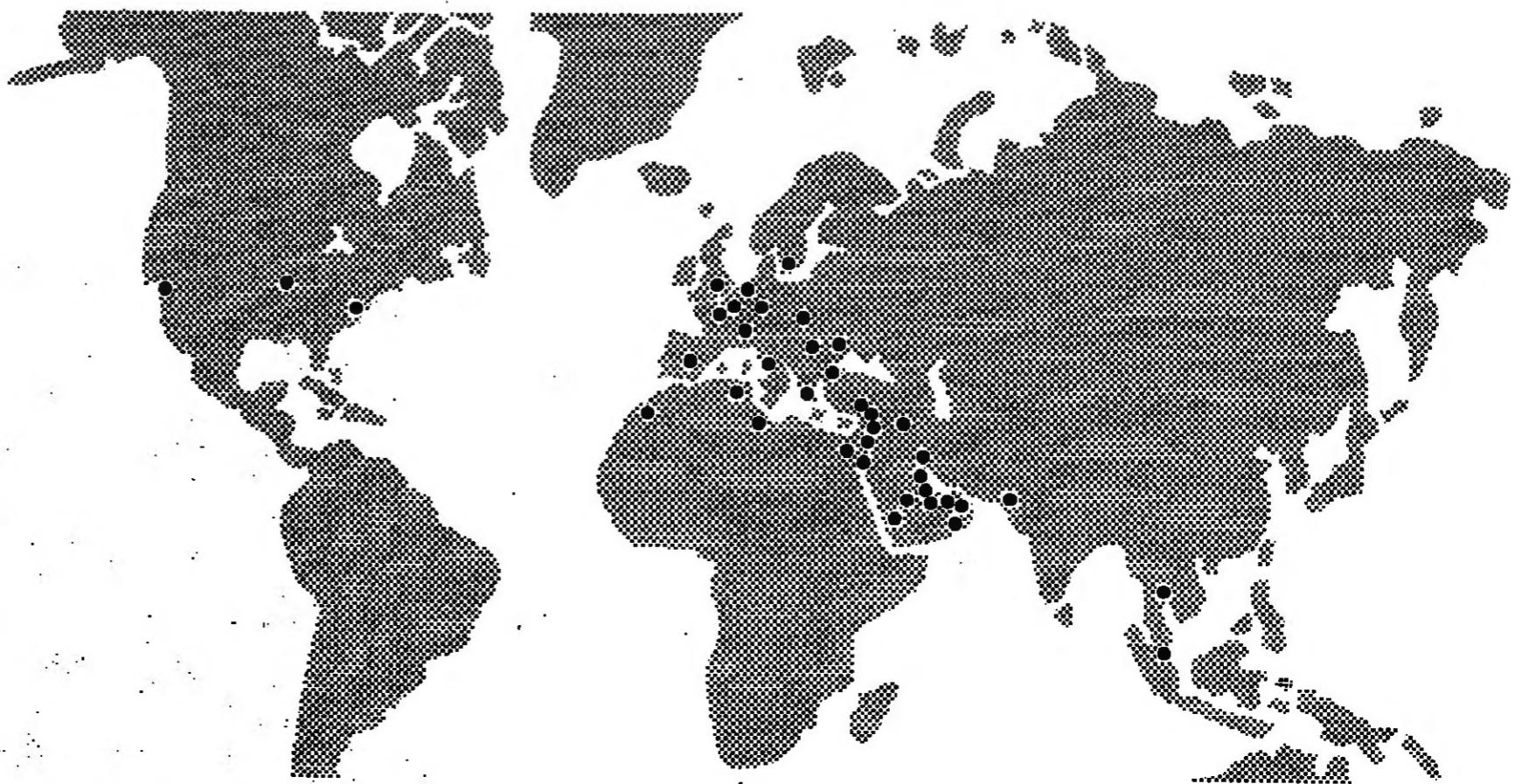
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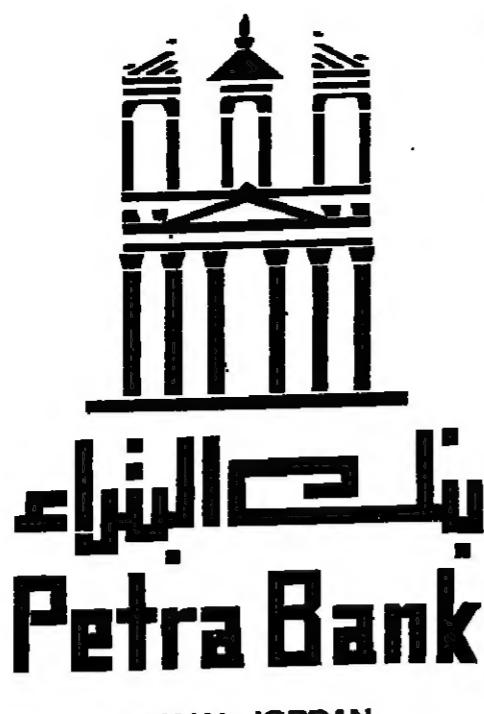
Headquarters of the Arab Bank in Amman.

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A SPECIAL REPORT ON JORDAN



A government housing project under construction surrounds a tent at Abu Nussair.

Peace Initiative Depends Upon U.S. Acceptance

By Scott MacLeod

LONDON — In the past six months King Hussein and Yasser Arafat, chairman of the Palestinian Liberation Organization, have forged their closest political alliance with the aim of starting peace negotiations with Israel. Their partnership is in striking contrast to "Black September" in 1970, when King Hussein and Mr. Arafat fought a war against each other.

Jordanian and PLO officials believe the alliance is very delicate, however, and could break apart if their "olive branch" does not get a positive response from Israel or from the United States, Israel's main backer and a traditional broker in the Arab-Israeli dispute.

The expression of the alliance is the agreement signed on February 11 by King Hussein and Mr. Arafat. It says that they have chosen to "move together toward achievement of a peaceful and just settlement of the Middle East crisis." Among the objectives of the prospective joint Jordan-Palestinian negotiation team is an exchange: the "total [Israeli] withdrawal from the territories occupied in 1967 for a comprehensive peace as established in United Nations and Security Council resolutions."

King Hussein and other moderate Arab leaders contend that this amounts to PLO acceptance of the key Resolution 242, which calls on the Arabs to give Israel peace in return for Arab lands captured in the 1967 war.

They have asked the United States to reward the PLO — through such gestures as ending the U.S. diplomatic boycott of the organization — and thereby stimulate the peace process. But American as well as Israeli officials voice skepticism of the February 11 agreement. They point out that senior PLO officials have offered differing interpretations, and that it still falls short of their demands for the PLO to unequivocally acknowledge Israel's existence and renounce terrorism.

If it becomes the conviction of the Palestinians that there is no possibility of progress at all, then they may decide there is no reason to continue working with us in exploring different

approaches to peace," said a high-ranking Jordanian official who asked not to be identified. "The Palestinian moderates will be weakened, and the hardliners strengthened."

Supporting this view, a PLO official said:

"We are waiting for King Hussein to meet with President Reagan. [The talks are scheduled for Washington May 27.] If the Americans do not adopt a more positive attitude [toward the PLO], then everything will be re-evaluated."

Jordan thinks a breakdown of its alliance with the PLO could have dangerous consequences. King Hussein feels the Palestinian issue is Jordan's biggest problem — and a bigger problem for Jordan than any other Arab state — considering how the affairs of Jordanians and Palestinians are intertwined. Thus, King Hussein has emphasized that a Jordanian-Palestinian alliance may be essential for successful Middle East peace negotiations.

But simplistically, Jordan's "Palestinian problem" is the West Bank, the Biblical land, which has great strategic significance today. Israel seized it from Jordan 18 years ago, but many Palestinians demand the establishment of an independent state there.

The West Bank, consisting of about 2,000 square miles (5,152 square kilometers) inhabited by 800,000 to 1 million Arabs, is sandwiched between Israel proper and Jordan. Until its future is peacefully resolved, Jordan does not feel it can rest easily.

Palestinian Arabs began substantially integrating with the largely bedouin population of Jordan following the 1948 war in Palestine. After Israel won independence as a Jewish state, Jordan's King Abdullah absorbed the unoccupied territory in Palestine into his own realm, which until then included land only on the East Bank of the Jordan River.

As many as 60 percent of Jordan's 2.5 million citizens are of Palestinian origin, not including the people of the West Bank who despite the Israeli occupation continue to hold Jordanian passports. There are 750,000 people residing in Jordan who are registered as refugees from

Palestine with the United Nations. A third of the refugees live in camps.

Palestinians have come to play an important role in Jordanian politics and society. Half of the present Cabinet are Palestinian Jordanians, including the foreign minister, Taha al-Masri. Palestinians are greatly involved in business and commerce, notably the banking sector.

Many Palestinians in Jordan openly support the PLO and would like to return to their former homeland while at the same time they feel a loyalty to King Hussein for the stability and relative prosperity he has brought to the country.

Previously rocky relations between the monarchy and the guerrilla organizations — which underscore the fragility of the present Hussein-Arafat alliance — were rooted in historical divisions between Jordan and Palestine as well as opposing ideas on how to deal with Israel.

King Abdullah was assassinated in 1951 by a suspected Palestinian nationalist. His grandson Hussein, then 15 years old, was at his side and narrowly escaped the gun attack.

The growth of a revolutionary Palestinian liberation movement in the 1950s and 1960s posed a threat to some Arab regimes, including the Jordanian monarchy. Israel responded to terrorist attacks by hitting its Arab neighbors. Palestinian militancy was fueled by the formation of the PLO in 1964 and then Israel's humiliating defeat of the Arab states in the 1967 war. In 1970, the PLO tried to overthrow King Hussein.

The "Black September" crisis started when one of the most radical guerrilla factions, the Popular Front for the Liberation of Palestine, hijacked three passenger airliners and flew them to the Jordanian desert. Ostensibly the purpose was to hold the passengers hostage until Palestinians were freed from Israeli jails. But it became evident the Popular Front wished to provoke a crisis with which to destabilize the Jordanian regime.

King Hussein ordered his tough bedouin

(Continued on Page 13)

U.S. Shifting Its Role in Bid for Peace in Region

(Continued From Page 7)
 that war and the diplomatic aftermath, a war that was catastrophic for Jordan.

The June 1967 war began in a wave of Arab nationalist fervor, led by President Gamal Abdel Nasser of Egypt, who seized the world's attention in April and May of that year by expelling United Nations forces from the Sinai, where they had served as a buffer with Israel, and closing down Israeli access to the port of Eilat.

It is still debated by historians whether Mr. Nasser, who was goaded into action by the Soviet Union and Syrians, knew what a risky course he was embarking upon. The Israelis struck suddenly in response to these provocations and in six days captured the entire Sinai and the Egyptian-controlled Gaza Strip, as well as the Syrian Golan Heights. King Hussein, feeling he could not stay out of the war, disregarded Israel's warnings and entered the fray. The result was the loss not only of the West Bank of the Jordan (which Jordan had occupied since the United Nations partition plan of 1948) but also the end to Arab control of East Jerusalem. The Israelis quickly incorporated the Old City into the Israeli part of Jerusalem.

In the aftermath of that war, Washington took the lead in working out a diplomatic formula once and for all ending the cycles of war in the Middle East. The ultimate result was United Nations Security Council Resolution 242 of November 1967 that in effect called on Israel to return the lands it had just occupied in return for secure and recognized borders. King Hussein, who had been humiliated by his loss of East Jerusalem in particular, seized on Resolution 242 as the way to recover his lands.

But despite the readiness of some Israeli leaders and of King Hussein to negotiate on the basis of 242's formula of "land for peace," the other Arabs rejected negotiations. And the Israelis were never willing to give up East Jerusalem and they were ambiguous about the return of the West Bank. The result was long years of stop-and-start diplomatic efforts, usually pushed by the United States. Not until Anwar Sadat became Egypt's president did an Arab leader come forth to negotiate by himself with Israel. As a result, he recovered the Sinai for Egypt in return for peace as the result of the Camp David accords of 1978.

The United States, embittered by the developments in Lebanon that led to a collapse of American diplomatic efforts, had, in effect, put the Middle East aside when King Hussein in late 1984 began trying to renew interest in peace talks. He allowed the Palestine National Council, the parliament for the PLO, to meet in Amman and on February 11, 1985, he and Mr. Arafat signed an agreement calling for negotiations in an international format on "land for peace." The Jordanians and Palestinians would be in one delegation, and they would agree to accept all Security Council resolutions, but did not

explicitly state its agreement to 242.

In addition, the Jordanians proposed as a goodwill gesture that Washington receive this joint delegation. Washington had problems with the formula but was otherwise encouraged by the initiative taken by the Jordanians. The American concerns were these: The U.S. has a long-standing pledge to Israel not to negotiate or even deal with the PLO until that group explicitly recognized Israel and accepted Resolution 242 and a follow-up one, 338 of 1973. Secondly, Washington did not like the idea of an international

(Continued on Page 14)

Economy Keeps Balance Despite Drop in Reserves

(Continued From Previous Page)
 pre-secondary school examinations that rigorously screens pupils according to vocational and professional demands.

The government, meanwhile, aims to place as much of the investment burden as possible on the private sector, which is being asked to provide half of the industrial investment in the new five-year plan. Self-sufficiency in agriculture is being encouraged too — Jordan imports 60 percent of food — as are industries that use indigenous raw materials instead of imports.

On the diplomatic front, the government is likely to press Saudi Arabia to delay settlement of its oil bill — Jordan buys all the oil not acquired from Iraq from Saudi Arabia at OPEC prices and the oil bill was \$606 million last year — and restate its commitment to underwrite aid contributions from the Emirates and Qatar. Oil finds on the Iraq-Saudi-Jordanian border are being played down for fear they might jeopardize aid payments. The prospecting being undertaken by Ramazan, is in a geologically difficult area, the investment is small and the technology dated.

In the absence of a comprehensive Middle East peace, Jordan has little choice but to continue juggling its political and economic options and shouldering the burden of a 100,000-member standing army, which takes up more than 30 percent of government revenues.



Inside the Dar Al Dawa pharmaceutical plant near Amman.

Tourism begins to With Long

Tourism Industry Begins to Expand With Longer Season

AMMAN — Traditionally, Jordan's tourist season begins to wind down soon after Easter, but the Alia, Royal Jordanian Airlines, Boeing 747, on its way to Amman a few days ago was booked solid with French and English tourists.

The longer season and the wider mix of activities — other than the conventional visits to Petra, Jerash and the crusader castles — now offered is a sign of the growing confidence and expanding horizons of Jordan's tourist industry.

The changes have, to some extent, been dictated by necessity. Tourism, like other sectors of Jordan's economy, is highly vulnerable to external circumstances and shifting market patterns.

Jordan's hotel industry, in particular, has been hit by the economic slump of the last two years. Many hotels in operation are facing an uphill struggle to break even while a few that were due to come on stream have been mothballed or their completion has been delayed.

However, the disappointing tourism revenue figures, which show a drop of 12 million dinars (\$30.36 million) to 172.3 million dinars in 1984 and a continuing decline as a percentage of gross national product from 13.15 percent before 1981 to a current 10 percent, paint a deceptive picture for they include revenue collected from all nonresident sources.

Arab nations made up nearly 80 percent of the 1.59 million foreign tourists that entered Jordan in 1984. Of these, Syrians accounted for almost a quarter and Egyptians one-half.

A fall of more than 10 percent in the number of Egyptians transiting Jordan to work in Iraq or the Gulf and visiting the Syrians accounted for most of the 8-percent drop in arrivals in 1984.

Business travel, which has a direct bearing on tourist facilities such as hotels, also was sharply down. There also was a decline in tourist business from North America, but this was offset by a rise in European business, especially package tours, which are the core of trade with Europe.

How to find new business and achieve a better utilization of existing resources is the authorities' main preoccupation and has focused attention on the need for greater coordination between the private and public sectors.

Part of the industry's problems stem historically from the loss of identity that followed Israel's seizure of the West Bank in 1967. The loss of the lucrative, undemanding Holy Land tourist trade hurt the private sector and left the government to shoulder most of the burden of development in the 1970s alone.

It is not surprising, therefore, that the state has assumed a dominant role in the industry — so much so that even in Amman and Aqaba, where private sector investment has been confined, the state has played a leading part in financing and developing big hotels.

The private sector has contributed about half of the 200 million dinars put into the tourist industry since 1973, but mainly in peripheral activities.

Since 1980, the Tourism Authority has been developing a marketing strategy to give the tourism industry a clearer profile. Distinct areas of tourism have been defined:

the archaeological sites and antiquities, Amman as a business center and a gateway to the Middle East, Aqaba as a winter and increasingly year-round resort.

A program of resthouse construction has been instigated and a company set up to develop the mineral hot springs at Zarqa Ma'in.

In addition, the government has allocated funds for the development of Wadi Rum, the desert valley immortalized by T.E. Lawrence in "Seven Pillars of Wisdom" by commissioning the University of Florence to study rock inscriptions and hiring a mountaineering group to devise a rock climbing program.

The Tourism Authority has been promoting two-stop holidays taking advantage of Jordan's strategic position in relation to other regions and tourist centers. Two-stop tours have been arranged with Syria, the Holy Land, Egypt and even the two Yemens.

The recent opening of the Nuweiba-Aqaba ferry expands the whole of Sinai for Aqaba-based tourism, particularly the superb scuba diving off Ras Mohammed and the monastery of St. Catherine.

However, it is not yet clear whether the ferry, which will cater principally to Egyptian expatriates returning home overland, will have sufficient facilities to attract tourist traffic on the three-hour crossing.

Aqaba still needs considerably more investment if it is to become fully competitive with nearby Eilat, in Israel, which has been an outstanding success as a beach resort.

The main handicap is price. Package tours to Eilat cost a fraction of the tours to Aqaba mainly because foreign tour operators can directly to the Israeli resort, whereas all incoming air traffic to Jordan has to pass through Amman.

The state airline, Alia, is acknowledged to have done a good job in promoting Jordanian tourism, but its interests and those of the industry often are in direct conflict, as the airline does not fly to tourist areas.

The 1986-90 five-year plan, which is being drawn up, will put greater emphasis on marketing, says the Tourism Authority's marketing director, Ahmed al-Bahri.

It is an emphasis that Muammar Nasser of Intercontinental Traders Travel Co. welcomes. In his view, a good start has been made over the last three or four years to coordinate marketing between the ministry and travel agents. But he thinks that the ministry should take a much more assertive role in marketing.

The first priority is getting higher occupancy rates in Jordan's 12,000 hotel rooms. Mr. Nasser said that he thinks that demand in Amman is gradually catching up with supply and, "providing they don't start another 300-400 room hotel," things should start looking up in 1986-87.

The statistics bear him out. Hotel bookings are running 20 percent ahead of this time last year, and tourism is consequently expected to bring in 190 million to 200 million dinars in the current year. But it is a measure of the competitiveness of the international tourist market and how vulnerable Jordan's position is that this is about one-third less than the 280 million dinars in revenues envisaged for 1985 in the 1981-85 five-year plan.

— ALAN MACKIE

Zarqa Ma'in Hot Springs Resort Needs New Head of Steam

ZARQA MA'IN — In the cavernous skeleton of the main hotel, a Saudi tourist was enjoying a picnic with his family, his Range Rover parked in the lobby and the detritus of his meal strewn over crates of sophisticated equipment waiting to be installed. It was the only sign of activity at Zarqa Ma'in, an arid and gully reached by a tortuous 15-kilometer (9.2-mile) drive through the foothills of the Dead Sea where the Middle East's first full-fledged thermal spa is being built.

Zarqa Ma'in has been renowned for its hot springs since Biblical times. King Herod is reputed to have bathed there and today, tribesmen come from hundreds of kilometers around to avail themselves of its curative powers.

It was to profit from this regional popularity that the Jordanian government decided five years ago to develop the springs as a resort. It planned a general recreational area with picnic grounds, camping site, swimming pool, thermal baths and holiday chalets, and a 142-room hotel with its own sports and medical facilities to cater to a wealthier clientele.

A government-controlled company, the Jordan Tourism and Spa Complex Co., was set up in 1980 with a capital of 2.5 million dinars (\$6.3 million) to finance the project and the Industrial Development Bank provided 3 million dinars in loans. Soon after, Al Habtoor Contracting Co. of Dubai was appointed general contractor.

Work on the project was under way when the management contract was awarded in December 1982 to a local company, Nabil Nazzal and Sons, in conjunction with the Belgian fast-food group, Restobel, which set up a joint venture, Middle East Tourism Services and Management Co. (Metma). They brought in Spanish thermal bath specialists, as technical assistants, and the Belgian connection was further strengthened by the award of the contract for the fixtures and fittings to SRZ International on the back of a promised 2-million dinar Belgian government credit.

It was clear from the outset that the project was undercapitalized, but work continued until mid-1982, by which time the main contractor was owed nearly 700,000 dinars. Then the Jordanian authorities refused to renew the work permits of the 150 Indian and Pakistani laborers and the project began grinding to a halt. However, it was the flash floods of last October that provided the coup de grace, leaving a trail of destruction and a bill for damages estimated at between 500,000 dinars and 1 million dinars.

With the project inadequately insured, it has still to be determined who is responsible for paying the bill. A further 300,000 dinars will have to be found for flood-protection measures.

There matters rest, the springs continuing to work their spell on visiting Saudis and Kuwaitis who seem indifferent to the devastation.

Daniel Philippart, the general manager of Metma, believes the project is so far advanced that the government cannot afford to write off the 5.5 million dinars already spent. He thinks Metma's recommendation to double the capital to 5 million dinars, with the increased leverage this would provide to raise credit, plus the 2 million dinars the Belgian government has

agreed to supply, should be sufficient to cover the 1.2 million dinars the project now is expected to cost.

Mr. Philippart has nailed down a contract with the Munich-based health-tours group, Med Tours, which will guarantee the project's viability. Med Tours has signed an undertaking to book 50 rooms year-round and would like to take 100. It is even prepared to invest 1 million Deutsche marks in a small treatment facility on the Dead Sea project that is part of Metma's development plans.

The combination of the Dead Sea's topography, 300 meters (984 feet) below sea level, and the springs' minerals produces a unique cure for psoriasis, a nervous skin complaint common in developed societies. The significance of the German deal is that it is to be financed by the state medical service. Mr. Philippart believes this could be made the precedent for other European countries.

If the money can be found, Mr. Philippart said, the project could be finished in time for an opening next spring, a year behind schedule.

— ALAN MACKIE

Aqaba Expands as Resort And Hub of Shipping, Trade

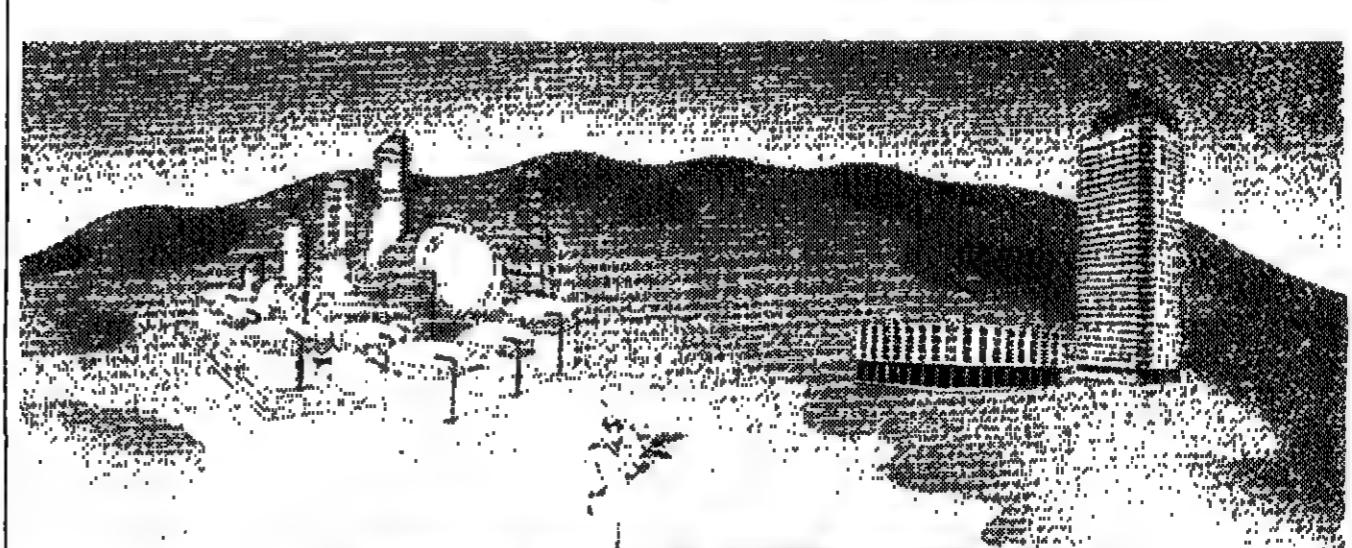
(Continued From Page 7)

Nowar, acknowledges that he has no easy task but is optimistic that encouraging the private sector to invest in the city's development, by extending financial incentives and public services, will in the long run insure the success of projects. A plan to grant free-zone status to the whole city is pending but amendments to facilitate import procedures and to encourage trade are on the way and are expected to attract business and industry to Aqaba.

Attention also is being given to the port area, which is gradually becoming more organized. Hurriedly erected warehouses and temporary fixtures such as floating berths — bought to deal with the surge in transit trade to Iraq as a result of the Gulf War — are being replaced with new permanent facilities to cope with changing trends and increasing trade activity.

Although Iran curtailed imports as money supplies dropped, the legacy of the Iran-Iraq war has continued to shift trade from the Strait of Hormuz to the Red Sea; cargo han-

(Continued on Next Page)



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The ruins at the ancient Roman city of Jerash.

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Barter Deals Give Industry Hopes for More Profits

AMMAN — Industry, like most sectors of the Jordanian economy, is feeling the effects of the recession, and it also is reaping the whirlwind of bad planning over the past five years. This is particularly the case in the larger state-controlled companies where production plans have been allowed to dictate the level of investment.

A wood-manufacturing plant, for instance, built three years ago never had the chance of making a profit against Eastern European dumping, while cement production has been increased well beyond the country's needs and the region's capacity to absorb. Goods and commodities have been produced for export markets that have not materialized, forcing the government into barter deals — principally with Egypt and Iraq — to place surpluses production.

But barter trade can be but a temporary expedient for a country like Jordan that can survive only by remaining internationally competitive. At best, it offers a breathing space for restructuring and nationalization. The emphasis, therefore, is on marketing — across the industrial spectrum — and on raising productivity and quality so that Jordan's products will be able to hold their own — if not in European markets — at least in the increasingly competitive regional ones.

Government help for industry through industrial estates and free zones, and especially the Encouragement of Industry Law, which offers regionally graded tax holidays and other concessions, is generous. Now, the government aims to boost industrial exports by improving overseas commercial representation and considering introducing export incentives.

Jordan has a fairly long history of industrial development by regional standards. The Jordan Cement Co. was founded in 1950 and the Zama oil refinery was built six years later. The government has tended to finance the heavy and attractive industries like phosphate mining — Jordan is the third-largest phosphate exporter in the world after Morocco and the United States — but, with the heavy promotion of the public sector in the past six years, state involvement in industry has gone much deeper.

It was inevitable, given the larger capital resources required by industry in the 1970s, that the private sector should take a back seat to the government and the state institutions like the Pension Fund, the Social Security Corp. and the Industrial Development Bank in extending credit to industry. It was a short step from there to giving preferential loans and tariffs to the public sector.

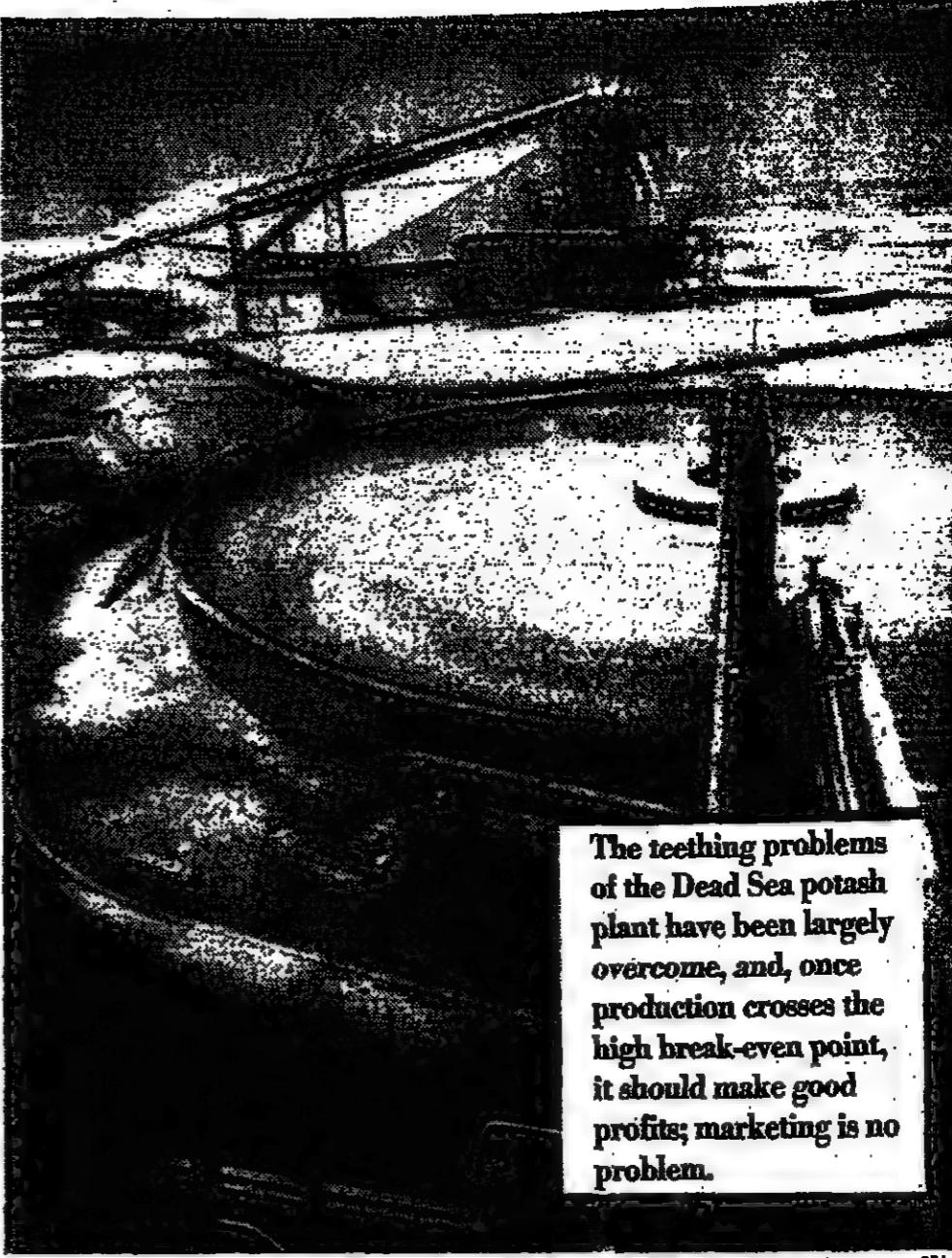
This discrimination against the private sector only hit home in 1983 when markets contracted, and it certainly contributed to its lack of confidence. Measured by Industrial Development Bank disbursements, industrial investment in 1984 fell to the lowest level since 1980.

The initial response of the private sector to the new government has been extremely positive. The new minister of supply, trade and industry, Rajai Musasher, has declared that he intends to get the government off the back of the private sector. If he sticks to his goals, two institutions, the Pension Fund and the Chamber of Industry, are likely to assume increasing importance in industrial development.

The Pension Fund already is negotiating to take over the Ministry of Industry's 100-million-dinar (\$253-million) portfolio, which would raise its combined assets to 141 million dinars and make it de facto the government investment arm of industry. The Social Security Corp.'s total assets are 83 million dinars and the Development Bank's outstanding loans and equity amount to 29 million dinars.

The Pension Fund is working with the Development Bank on wood, glass and carton-paper projects. It also has a number of other projects under study, including a pumps plant and a small-scale automobile assembly factory. In both cases feasibility will depend on suitable technology and sufficient domestic demand to sustain the bulk of production. A sound domestic market base is a major criterion of investment viability.

The fund also has asked the



The teething problems of the Dead Sea potash plant have been largely overcome, and, once production crosses the high break-even point, it should make good profits; marketing is no problem.

A potash refinery.

World Bank to help in identifying downstream industry from mining, and it is hoping that the 15-million-dinar facility it is promoting in the Irbid industrial zone will form the basis of downstream engineering industries.

For the first time, also, the fund is seeing how it can help smaller industries. The Chamber of Industry's role will be more in market and product promotion. With its debts paid up, it is in a much stronger position to financially develop its research facilities and to attend foreign trade exhibitions. It recently exhibited at the Bahrain Trade Fair.

The chamber's most important task, however, will be in representing the private sector in its dealings with the government. At its first meeting with the new administration the chamber stressed the need for greater protection of local industry and for comprehensive review of regulations covering industrial licensing and tariffs.

At present there is no consistency in tariff protection. Some products like bathroom fixtures, tiles, refrigerators and home appliances get 55 percent, while others none. The chamber also asked for the removal of discriminatory preferences favoring the public sector and that it be brought more into the picture in industrial planning.

According to Isam Dheir, the chamber's president, their ideas were well received. But in dealing with public-sector reform Mr. Musasher does not have much room for maneuver, and he will have to tread warily. Many ailing public-

sector companies in need of urgent cash injections would go under if they lost their preferential treatment. Mr. Musasher favors joint ventures with raw-material suppliers where possible and barter deals for bulk products like cement and phosphates that are difficult to market.

Quite apart from cash difficulties, restructuring the public sector is going to involve imagination and entrepreneurial flair to minimize dislocation and loss.

The South Cement Co. launched on the stock market three years ago on the crest of the boom, now is an embarrassing white elephant.

Merger negotiations with the profitable Jordan Cement Co. hinge on price. But Jordan Cement is hoping to make the merger more palatable by introducing new product lines that will enable the local market to absorb 70 percent, compared with the present 50 percent of the two plants' joint 4-million-ton-per-year production.

Despite the problems faced by many public-sector companies, the industrial picture is far from gloomy. Phosphate production, up 31 percent last year at 6.2 million tons, probably has another two years of good growth. Plans for a phosphoric acid plant have been shelved but work on developing the prolific Al Shidiya phosphate deposit north of Aqaba continue.

The teething problems of the Dead Sea potash plant have been largely overcome, and, once production crosses the high break-even point, it should make good profits; marketing is no problem. The fer-

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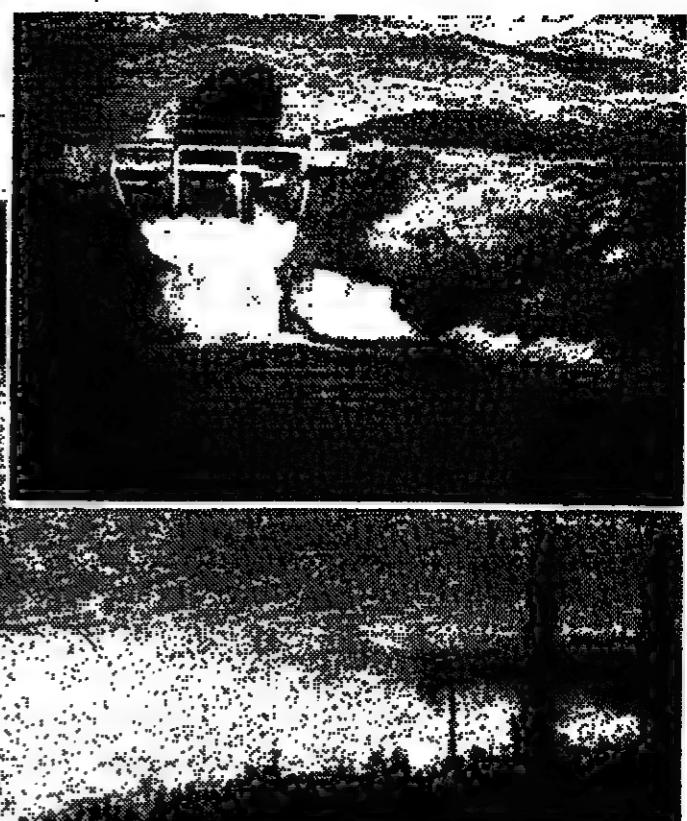
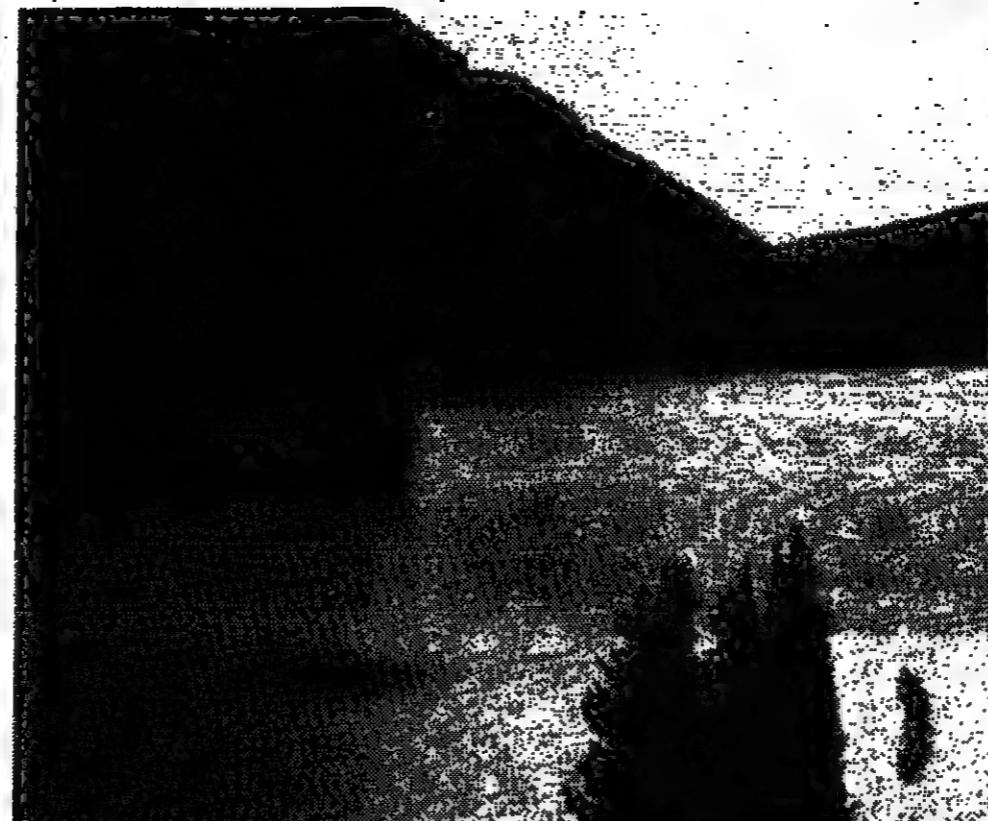
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Vegetables are grown in greenhouses in the Northern Jordan, above left. Waters behind the King Talal Dam, northern Jordan, right, and inset, the East Ghor Canal in the Jordan Valley.

Uplands Agriculture Is Given Priority in Planning as Food Import Bill Increases

By Sarah Graham-Brown

LONDON — Jordan's next five-year plan (1986-1990) is expected to make agriculture one of its major priorities, raising its share in total spending from the 7.1 percent allocated in the 1981-85 plan.

This is a measure of the government's concern at some of the long-term problems visible in the agricultural sector.

It is not so much that agriculture has been neglected, as that its de-

velopment has been lopsided. Substantial investment and foreign aid have gone into the development of the Jordan Valley irrigation project, but relatively little has been done to assist the rain-fed agriculture of the uplands.

At the end of the 1970s, in a report on the basic needs of rural communities in Jordan, Dr. Jafir Dajani, of Stanford University, wrote: "Although Jordan is mainly an agricultural country, the per-

centage of the population that is employed in agriculture is becoming smaller every day... In many cases, the reason behind this rural exodus is the smallness of the plots of land farmers cultivate and, thus, their inability to make a living off the land."

The drift of migrants to the urban areas has gone so far as to create labor shortages in agriculture.

Alarm at this seemingly unstop-

pable trend is combined with concern at the steadily rising food-import bill over the past few years: Jordan imports about two-thirds of its food.

Furthermore, in the 1983-84 season a severe drought reduced wheat production from a 10-year average of 62,000 tons a year to mere 10,000 tons.

In March this year, the Ministry of Agriculture announced new moves to encourage farmers in the

rain-fed areas guaranteed prices, technical advice, and cheap seedlings for cereals, potatoes and onions.

Some critics may argue that this is too little too late, when already about half of Jordan's population lives in the Amman/Wadi Seer-

ment such as land reclamation and irrigation, farm buildings and purchases of livestock and equipment.

The cooperative development of rain-fed agriculture projects, costing \$28 million and jointly financed by the International Fund for Agricultural Development and

"lengthy procedures" involved in obtaining credit through the Jordan Cooperative.

In contrast, large-scale commercial farming has flourished, in the highlands as well as in the Jordan Valley, including production of vegetables and flowers under drip

final section of the canal, 14 kilometers (8.7 miles) between South Shounesh and the Dead Sea, the contractor for which was awarded to Josef Reippl of West Germany last year.

With a loan of \$20 million from the Arab Fund for Social and Economic Development, the authority is converting the system of open channels in the central section of the valley to pipes, to allow for drip irrigation over a further 5,500 hectares (13,624 acres).

Despite the rapid development of high-technology farming, the valley is experiencing some problems, particularly in the realm of marketing.

Some recent seasons have seen gluts of vegetables, especially tomatoes, which have sent prices plummeting, causing serious problems for less affluent farmers.

The government has gone so far as to impose fines on overproducers, and for the longer term, efforts are being made to introduce a wider range of crops and better methods of crop rotation.

It is hoped that the national research center on agricultural techniques being set up in the valley will be able to contribute to solutions to some of these difficulties, which arise from the use of high technology farming methods.

Peace Bid and U.S. Acceptance

(Continued From Page 10)

army to crush the PLO in the Jordanian capital, Amman, and then repel a Syrian invasion of the country's northern frontier. In the ensuing years, Jordan as well as Israel became a target for Palestinian extremists who formed the notorious Black September terrorist group.

In 1974, at an Arab summit meeting in Rabat, Morocco, the PLO won approval for a resolution that effectively terminated Jordan's claim to the West Bank and Arab Jerusalem. It declared the Palestinians had a right to a "homeland" and "self-determination," and designated the PLO as their "sole legitimate representative."

An evolving rapprochement between Jordan and the PLO became firmer in 1982. The Israeli invasion that drove the PLO out of Lebanon put the Palestinian issue back on Hussein's doorstep. For Mr. Arafat, the loss of his only military base left few options other than to join King

Hussein in a practical negotiating process.

With the stage set for a full political alliance, President Reagan's September 1, 1982, peace initiative served as a catalyst. It called on Israel to return the West Bank and Gaza Strip (captured from Egypt in 1967) where a self-governing Palestinian entity would be established in association with Jordan. Israel would get peace.

King Hussein and Mr. Arafat saw the opportunity to "save" the occupied territories from permanent Israeli control. There are estimated 42,600 Jewish residents in 114 settlements on the West Bank, and another 3,000 in the Gaza Strip, which has 500,000 Arabs.

Since 1982, King Hussein and Mr. Arafat have talked of an eventual confederation between Jordan and the Palestinians, although the PLO insists that such a union be postponed until after the establishment of a Palestinian state.

Their developing partnership was bolstered last November

when the king hosted the 17th session of the Palestine National Council, the PLO's "parliament." He strongly reaffirmed his recognition of the PLO as the representative of the four million Palestinians living inside and outside the occupied territories, and he pledged not to enter peace talks without PLO consent.

The Hussein-Arafat approach has been fraught with dangers and complications. Jordanian officials feel the biggest threat is that PLO hardliners and even some close Arafat associates will pressure the PLO chairman to abandon the partnership as an exercise in futility and capitulation.

Radical PLO factions forced Mr. Arafat to suspend dealings with King Hussein in April 1983 when the two leaders were close to an agreed approach concerning the Reagan peace initiative. These factions waged a Syrian-backed civil war against Arafat loyalists, costing more than 1,000 lives in eastern Lebanon and Tripoli.



Urbanization encroaches on vital agricultural terrain.

Jordan imports about two-thirds of its food. Furthermore, in the 1983-84 season a severe drought reduced wheat production from a 10-year average of 62,000 tons a year to a mere 10,000 tons.

Zarqa conurbation where real estate speculation is, in its turn, encroaching into the agricultural land surrounding it.

But there are several projects that aim to help small farmers, especially by providing access to credit.

For instance, the Ministry of Agriculture's Highland Development Project is providing assistance for farmers to develop or reclaim hill slopes for growing fruit and olive trees.

The European Investment Bank is channelling 6 million European Currency Units (\$4.36 million) through the Jordan Cooperative Organization and the Agricultural Credit Corp. for on-farm invest-

ments such as land reclamation and irrigation, farm buildings and purchases of livestock and equipment.

The Jordan Valley Authority continues to develop the Valley's irrigated area, although the pace is slower than anticipated mainly due to the freezing of plans to build the Maqarin Dam on the Yarmouk River.

This was to serve as the main reservoir for the East Ghor Canal, which feeds irrigation projects in the valley.

This project has been stymied by the objections of Syria and Israel, which claim riparian rights to the Yarmouk waters.

However, the Jordan Valley Authority has gone ahead with the

irrigation and plastic tunnels, and the development of intensive poultry and livestock farming.

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**Amman: Busy Hub of Nation**

At left, a busy avenue in the capital and a traffic circle in a rapidly developing quarter of the city.

**Nation's Historic Role as Transshipment Route Continues With Modern Means**

AMMAN — The Pharaohs' armies used to cross Jordan to do battle with Mesopotamia.

The Assyrians, Babylonians, Persians, Greeks and Romans all passed through. Caravans from Yemen split up into two near the modern-day port of Aqaba, to head for Syria to the north and to the Nile Valley to the west.

Their modern equivalents are still on the move although trucks, container ships and Boeing jets have replaced camels and horses. And their loads are no longer the spices and cloths of the East.

They are more likely to be goods from the north — anything from sophisticated military equipment or Iraqi oil to fresh meat from Europe and Jordanian phosphates and potash for export.

"The story of transportation in Jordan is the story of civilization here," said Adnan Abu Odeh, a senior counselor to King Hussein and a former cabinet minister.

Over the last 10 years, Jordan has invested about 800 million dinars (\$2 billion) in transportation, just over 20 percent of its investment budget for that period.

Income from transportation rose by an average 29.6 percent annually from 1975 to 1980, according to Transport Ministry officials, bringing in 91 million dinars and making up 11.2 percent of the country's gross domestic product.

Since 1980, transit through Jordanian territory has risen sharply because the Gulf war that pits neighboring Iraq against Iran.

Over the next five years, it plans to add Kuala Lumpur, Seoul, Tokyo, Rio de Janeiro and Abidjan to its international network. Alia's hub is the ultramodern, 2-year-old Queen Alia International Airport, south of Amman.

On the domestic front, Alia plans to open up routes to new airports being built at Petra, Irbid and in the Ghor Valley. These

destined for Iraq. He said that, in view of Jordan's decision to expand the port, Baghdad had promised to continue using its facilities once the Gulf war ends.

While Jordan's transport policy aims at improving and expanding all forms of surface transport, its national airline, Alia, provides perhaps the most prestigious example of the transport industry's growth.

The airline, whose fleet includes three Boeing 747s and nine Lockheed L-1011 Tristars, serves 40 destinations, from Los Angeles in the West to Singapore in the East.

In addition to Alia, Jordan owns Arab Wings, the Arab world's only executive jet organization, which operates two Saberliners and two Learjets.

Jordan is also a partner with Iraq in Arab Air Cargo, a purely freight line set up in 1981, which currently operates two Boeing 707s and can draw on the resources of Iraqi Airways and Alia. In 1984, it flew 457 flights, carried 14,000 metric tons and brought in \$8.8 million in revenues.

The ground, Jordan's biggest transport activity is trucking. Lines of heavy goods vehicles can be seen outside the capital, on the approaches to Aqaba and at the frontier crossings with Iraq and Syria.

The Jordanian government has set up two joint trucking ventures with its neighbors, the Iraqi-Jordanian Land Transport Co. and the Jordanian-Syrian Land Transport Co. They operate 750 and 366 trucks respectively.

Altogether, more than 8,000 trucks are registered in Jordan, a country where the population is estimated at 2.5 million.

Private owners complain that the routes, for which Alia plans to purchase small turboprop planes, are mainly aimed at the tourist market.

The airline is currently studying the European Airbus, the McDonnell Douglas MD-80 and the Boeing 737 and 767 as replacements for its Boeing 707s and 727s.

Alia made a steady profit for a decade until 1983 when it lost \$2 million at the prevailing rate of exchange. The chairman, Al Ghadour, predicts that the 1984 figures will show another loss, but attributed this to the inauguration of routes to Singapore, Chicago and Los Angeles.

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Private owners complain that the

government favors public-sector trucking concerns at a time of economic downturn. They also blame government restrictions and a cut in government-controlled freight charges, from 13.5 to 11 dinars per metric ton for poor profitability.

Government regulations now stipulate that trucks can carry a maximum of 35 tons, compared with a previous ceiling of 60 tons. The tonnage was cut to reduce damage to roads.

Most truck traffic comes from Europe, Turkey and Syria, often heading for Gulf countries such as Kuwait and Saudi Arabia. Transport Ministry officials said that, while Jordan's political ties with Syria are strained, this has had little impact on cross-border trade.

Jordan's most famous railroad is the Hijaz Line. The target of many acts of sabotage, the track featured in "Seven Pillars of Wisdom" by T.E. Lawrence, Lawrence of Arabia, an account of the 1916 Arab revolt against Turkish Ottoman rule.

From the trucking industry,

Jordan operates a fleet of more than 400 buses in the Public Transport Corp. Figures for 1983 show that 51 million passengers used bus services, both on short, city routes and on the intercity

roads.

An unwelcome byproduct of the high volume of road traffic in Jordan has been the toll on the country's road system. In particular, roads leading to Iraq have been severely damaged by the increase in heavy loads.

As a result, an ambitious road-improvement plan is under way.

Around Aqaba, in the south, the government is to build a ring road to relieve congestion from the port under the next five-year plan, which begins next year. The World Bank has granted a \$30-million loan for the project.

A fast, modern four-lane highway

way already links Amman with the southern town of Maan, on the

road to Aqaba, and serves Queen

Alia Airport. The government has earmarked work costing 107 million dinars to upgrade the country's road system by 1990.

In addition, the Public Works

Ministry estimates that it needs 20

million dinars annually just for

highway maintenance but com-

plained earlier this year that it only

had a 4-million-dinar allocation.

Another sector where Transport

Ministry officials say they would

welcome more development in rail-

roads.

Jordan's most famous railroad is

the Hijaz Line. The target of many

acts of sabotage, the track featured

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rule.

The Hijaz Line was originally

built by Turkey through Syria and

Jordan to Saudi Arabia to carry

Moslem pilgrims to Saudi Arabia's

holy shrines of Mecca and Medina.

Perhaps Jordan's proudest trans-

port achievement of recent months

— at least on political grounds —

has been the establishment of a

ferry link from Aqaba to Nuweiba

across the Gulf of Aqaba on

Egypt's Sinai coast.

The service was inaugurated on April 25, the third anniversary of Israel's return of Sinai to Egypt, by King Hussein, President Hosni Mubarak of Egypt and Sultan Qaboos of Oman.

Currently, two ships ply the three-hour crossing daily and can take trucks, buses and cars.

The service provides a passage past Israeli territory — off limits to ships from all Arab countries except Egypt. Jordanian officials said they expected one early commercial use would be the export of Iraqi cement to Egypt, carried by trucks using the ferry.

For the ordinary Jordanian or Egyptian, the new link provides a cheap route between Amman and Cairo. Buses leave both capitals every day to link up with the ferry. The total journey takes about 13 hours and costs 19 dinars per passenger, compared with the economy air fare of 54 dinars one way.

— JULIAN NUNDY

United States Shifting Its Role in Bid for Peace in Region

(Continued From Page 10) conference to deal with the Middle East, even though Washington at one time strongly favored it.

Thus, the question quickly became one of whether a joint Palestinian-Jordanian delegation could be put together that would not include PLO members but that at the same time had Palestinians in the group who were recognized as being leaders in the Palestinian community. Theoretically, if the PLO met the American conditions, that would make it possible for Washington to meet with a delegation that included PLO members. But

the Israelis would not negotiate with such a group because of their refusal to deal with the PLO under any circumstances.

Mr. Shultz, in his meeting with King Hussein on May 12 and 13 sought to make it clear that it was important for him and Mr. Arafat to propose Palestinians who could deal with Palestinian issues and be acceptable to the United States and — ultimately — Israel.

The negotiations of peace have passed resolutions against arms sales to Jordan until peace talks begin, and that in effect, has tied the administration's hands.

CONTRIBUTORS

SARAH GRAHAM-BROWN is the society and culture editor of the London-based magazine *The Middle East*.

ANNE COUNSELL, a journalist based in Amman, contributes to the *Jordan Times* and British magazines.

BERNARD GWERTZMAN is a diplomatic correspondent for The New York Times. He is based in Washington.

IAIN JENKINS is a staff writer for Middle East Economic Digest. He is based in London.

BILL LYONS is a freelance photographer based in Amman.

ALAN MACKIE is a London-based journalist who writes about Middle Eastern affairs.

SCOTT MACLEOD writes regularly about the Middle East for The New Statesman. He has contributed articles on the Arab-Israeli conflict to The New York Review of Books and The Washington Post. He is writing a book on the Middle East peace process.

JULIAN NUNDY is on the editorial staff of the International Herald Tribune. Previously, he covered the Middle East for Newsweek magazine.

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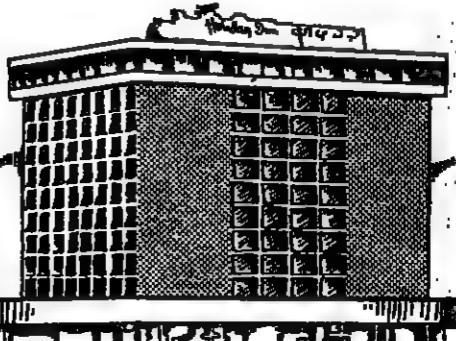
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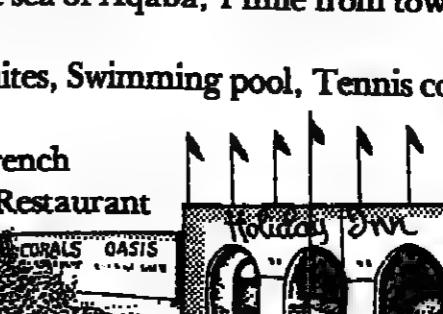
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JULY 1985

BUSINESS/FINANCE

ECONOMIC SCENE

U.S. Budget-Cutters Set Down to Business

By LEONARD SILK

International Herald Tribune

NEW YORK — With the passage Thursday by the House of Representatives of a budget resolution, the struggle over budget cutting, the most important issue facing the U.S. and international economies, is coming to a head.

In the weeks ahead, an effort will be made to produce a compromise between the House resolution, which calls for the reduction of the deficit by \$259.1 billion over the next three years, and the Senate budget plan already adopted under the leadership of Senator Robert J. Dole of Kansas, the Republican majority leader, with President Ronald Reagan's backing.

The two plans differ in the total cuts they are proposing, and more significantly, in their composition. The House plan calls for steeper cuts in the rate of increase of military appropriations. The Senate would freeze real outlays for one year, allowing military spending to rise to cover inflation; the House would freeze nominal outlays in the first year, thereby budgeting for a real decline in military appropriations.

The Senate plan calls for a one-year freeze in the Social Security cost-of-living adjustment, while the House does not touch pensioners' benefits.

The plans also differ in their treatment of a great many other programs, with the Democrats seeking to protect or increase benefits for low-income groups and the Republicans aiming at cutting a greater number of social programs.

A major question about both resolutions is how much they really would cut the deficit.

The House resolution is supposed to mean a three-year cut of \$259.1 billion, based on the same assumptions made by the Senate and the administration's Office of Management and Budget. Of that total cut in the deficit, \$6.25 billion would come from the revenue side, especially to pay for the Superfund to clean up industrial wastes.

THE biggest deficit cuts in the House resolution are in the military area, accounting for more than half the total.

Reductions from the originally planned administration military buildup were estimated at \$27.5 billion in 1986, \$45.5 billion in 1987 and \$64.6 billion in 1988, for a three-year total of \$137.1 billion, considerably more than the Senate proposes to cut from the military.

The Senate, on the other hand, would suspend the cost-of-living adjustment during 1986, thereby saving about \$27 billion over three years.

The Senate leadership asserts that its plan would cut the three-year deficit total by "nearly \$300 billion," as compared with the House total of about \$250 billion. But how much will the cuts of either the Senate or House resolutions really amount to?

Both Houses used as their starting point the administration's baseline projections that, if no cuts were made, the deficits would total \$229 billion in 1986, \$245 billion in 1987 and \$244 billion in 1988.

If the budget cuts just voted by the House are made, the deficits for the next three years would, on the administration's economic assumptions, come down to \$173 billion in 1986, \$163 billion in 1987 and \$124 billion in 1988.

But the Congressional Budget Office, using less optimistic economic assumptions and what it considers more realistic assumptions about military outlays, estimates that the deficits for the next three years would amount to \$189 billion, \$178 billion and \$172 billion, respectively.

Is this enough of a reduction? The answer depends chiefly on the relation of the planned deficits to the gross national product.

(Continued on Page 17, Col. 1)

Currency Rates

May 24									
Dollars/British		U.S./D.M.		U.S./F.F.		U.S./G.D.		U.S./S.F.	
1.48	4.29	12.92	24.95	1.749	5.69	1.03	3.69	13.60	42.44
1.975	7.64	28.33	4.64	12.83	3.93	2.03	7.25	24.24	72.44
2.005	3.36	32.78	1.567	4.95	1.67	1.93	3.20	12.95	32.95
1.995	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.985	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.975	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.965	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.955	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.945	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.935	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.925	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.915	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.905	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.895	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.885	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.875	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.865	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.855	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.845	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.835	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.825	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.815	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.805	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.795	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.785	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.775	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.765	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.755	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.745	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.735	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.725	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.715	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.705	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.695	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.685	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.675	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.665	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.655	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.645	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.635	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.625	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.615	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.605	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.595	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.585	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.575	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.565	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.555	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.545	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.535	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.525	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.515	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.505	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05
1.495	1.02	24.00	4.295	1.25	0.41	0.65	1.80	12.05	31.05

SINNESS ROUNDUP

GM's Capital Spending to Total \$9 Billion in '85

United Press International

DETROIT — The chairman of General Motors Corp., Roger B. Smith, said Friday that GM's total worldwide capital expenditures are approaching \$9 billion in 1985 and could become "the foremost developer of technology in the world" with its new interests.

"With our new and expanded interests in high tech, GM could become the foremost developer of technology in the land," Mr. Smith said.

The automobile transportation and closely related activities," Mr. Smith told the annual stockholders meeting at GM headquarters. "I know any place else we can generate \$34 billion in sales and \$1 billion in profit, as we did last year, the point is," he said. "In keeping our complex products,

French Steel Firm Wins Russian Order

Reuters

MOSCOW — Usinor, the government-owned French steel company, has signed a preliminary agreement to supply Russia with steel products worth 4 billion francs (\$423 million), Mr. Loubert, managing director, said Friday.

Mr. Loubert said the contract was for 1.5 million tons of steel products, primarily steel pipes and Russian gas pipelines. The pipes are for 1986-87 delivery, other products in the order include steel plate, Mr. Loubert said.

Lloyd's Faces Rebellion by Backers

(Continued from Page 15)

however, argue that they are a crucial case and believe that Lloyd's does not act, the steady supply of rich and famous people spared to take the financial risk of becoming a Lloyd's underwriter all dry up.

"Nobody should become a member until this is sorted out," said one of the syndicate investors, with Whitten, a London management consultant who faces a loss of \$3,000.

The two syndicates involved are managed by Richard Beckett Underwriting Agencies, a subsidiary of Water Holdings PLC, a London-based insurance brokerage.

In 1982, Minet discovered that \$1 million of the syndicates' funds reportedly had been misappropriated by two top executives. It eventually recovered \$32 million, largely through a return of reinsurance premiums, and settled with syndicate members, agreeing to make up the bulk of the remaining \$19 million.

The settlement was conditioned, however, on the members promising not to sue Minet or the Richard Beckett agencies for any additional losses that might occur. But a group of "names" are studying the possibility of suing Minet, despite the agreement.

Recovery of the reinsurance premiums meant that, for the most part, there was no reinsurance and when claims came in on the cases the members had to bear the full brunt.

The claims proved to be substantial, mainly from United States product liability cases against industrial companies by families of former employees who had contracted asbestos from cases involving Agent Orange, the defoliant used in the Vietnam war. The syndicate agencies assess the potential loss at \$165 million over a 20-year period.

J.S. Budget Proposals

(Continued from Page 15)

GNP, which is currently running at about \$3.9 trillion, is projected to rise to \$4.19 trillion in fiscal year 1986, \$4.551 trillion in 1987 and \$4.922 trillion in 1988. When the level of cuts proposed by Congress, the deficits in the next two years would run at 5.5 percent, 5.4 percent and 5 percent of GNP — with, in all likelihood, imaging effects on the nation's balance of payments, the dollar, interest rates, and the national and world economy.

If the cuts now proposed by the House are enacted, those deficits in relation to GNP would be brought down to 4.1 percent, 3.6 percent and 3.5 percent, using the optimistic administration assumptions about the economy and military. So, to 4.5 percent, 3.9 percent and 3.5 percent, using the less favorable Congressional Budget Office assumptions.

While these deficit cuts may be more than ideal, they should prove prospects for the nation's stability, interest rates and economic growth.

The proposed cuts be enacted and will they be closer to the House or to the Senate design? Given the wide disparities between House and Senate resolutions, it looks like a tough battle.

Mineral Firm Cuts Fibro Stake

New York Times Service

NEW YORK — Minerals & Resources Corp. of Hamilton, Bermuda, says it plans to dispose of 10 million shares of Fibro-Salomon Inc. stock, currently valued at about \$400 million, as part of its plan to redeploy its assets.

The sale would reduce the mining company's stake in Fibro-Salomon to about 14.5 percent of the 145 million shares outstanding, from about 22 percent. But Minerals & Resources would remain the largest shareholder in Fibro-Salomon.

The shares are to be sold in the open market, subject to market conditions, through a syndicate led by Salomon Brothers Inc. Fibro-Salomon stock fell 1% to 39% in trading Friday on the New York Stock Exchange. Minerals & Resources said it would gain significant capital from the sale of Fibro-Salomon stock, and channel that gain into "new investment areas."

Mitsubishi Industries Expects Drop in Sales

Reuters

TOKYO — Mitsubishi Heavy Industries Ltd. expects parent company sales to fall 11 percent for the year ending March 31, 1986.

Shozo Saito, a vice president, projected that sales in fiscal 1985 would be 1.8 trillion yen (\$7.2 billion), down from 2 trillion the year before.

Speaking to securities analysts at a luncheon, Mr. Saito declined

Chairman of FCA Predicts A Loss for the 2d Quarter

The Associated Press

NEW YORK — Financial Corp. of America probably will lose money in the current quarter but may be profitable in the last half of the year if interest rates go no higher, its chairman said Friday.

William J. Popejoy, who took over as chairman and chief executive of the thrift in August, also said the deposit outflow at its American Savings & Loan Association subsidiary appeared to have been halted this month.

Mr. Popejoy said withdrawals exceeded deposits by about \$2.5 billion in the first four months of the year, but added: "We are in the black for the month of May."

American Savings, based in Stockton, California, ranked first in the United States in terms of deposits at the end of 1984 at \$20.3 billion.

Mr. Popejoy took over as chairman last summer succeeding Charles W. Knapp.

to specify how large the thrift's second-quarter loss might be. But he said there was a "good possibility" even at current interest rates that the company could post a profit in the third quarter and "an even better possibility" that it would be profitable in the fourth quarter.

He told the analysts that the company would be able to post a profit at current levels of interest rates because it had reduced its operating expenses by about 20 percent and cut its work force by 30 percent.

Financial Corp. of America had a loss of \$38.1 million in the first three months of 1985, and Mr. Popejoy said he doubted the company would post a full-year profit without a sharp decline in interest rates.

Speaking to securities analysts at a luncheon, Mr. Saito declined

COMPANY NOTES

Bayerische Motoren Werke AG expects volume, sales and production this year to increase in similar proportions to 1984, according to the management board chairman, Eberhard von Kuehnem. Last year, parent-company net profit increased 13.8 percent to \$29.63 million Deutsche marks (\$10.7 million), from 288 million DM in 1983.

Blue Circle Industries PLC has signed contracts to buy Atlantic Cement Co. from Newton Mining Corp. for \$145 million, following government approvals in the United States. Blue Circle said. The agreement is scheduled to be concluded next Wednesday.

Broken Hill Pty. is seeking more U.S. shareholders in order to broaden the market for its stock, the managing director, Brian Linton, said. BHPT wants U.S. investment in its capitalization of about \$6.5 billion to increase to around 10 percent from 1 percent at present.

Grumman Corp.'s Grumman Aerospace Corp. won three U.S. Navy contracts evaluated at \$125 million for production of nine E-2C surveillance aircraft, the De-

fense Department said. It said that two of the planes would be sold to Singapore and one to Egypt. It also said Boeing Co.'s Boeing Military Airplane Co. had received \$57.5 million from the air force for B-1B aircraft spare parts.

Hitachi Inc. of the United States and Metro Co. of Thailand have agreed in principle to form a joint venture to set up a joint venture worth 3 billion baht (\$109.2 million) to produce 100,000 tons of polypropylene a year in Thailand, Metro said. The new venture will be located near major automakers in the Midwest, and would initially produce large transmission casings for automobile use. Terms were not immediately available.

Woolworth Holdings PLC said it is raising about £143.2 million (\$180.2 million) of 8% percent convertible unsecured loan stock, dated 2000, through an underwritten rights issue at par of £14.3 million in nominal value. Under the terms, £17 of convertible loan stock can be exchanged for 10 ordinary shares. Woolworth said the convertible loan stock is also being offered to holders of the company's 11-percent convertible unsecured loan stock.

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UNITED KINGDOM

SPORTS

Oilers Beat Flyers, 3-1; Even Stanley Cup Final

Compiled by Our Staff From Dispatches

PHILADELPHIA — The Edmonton Oilers ended the Philadelphia Flyers' run of success against them Thursday night and headed west with the home-ice advantage in the final Stanley Cup series.

Goals by Wayne Gretzky and Wally Lindstrom, followed by an empty-net score by Dave Hunter, gave the Oilers a 3-1 victory, their first against the Flyers since Nov. 13, 1982, a span of 10 games.

"It's nice to get that burden off our shoulders," said the Oilers' Kevin McClelland, whose check on Brad Marsh behind the Flyers' net started the play that led to Lindstrom's winning shot. "We hadn't beaten them for so long. Now, things look a lot brighter."

Gretzky, who didn't even have a shot or an assist in a 4-1 loss in the opening game of the series this time, scored the first goal of the game this time, before a sellout crowd of 17,191 at the Spectrum.

"I was really bothered by some things that were written about us in the papers here after the first game," he said. "I don't mind constructive criticism, but people were writing things they know nothing about. Someone wrote that we don't have any heart."

Edmonton's coach, Glen Sather, said: "Wayne looked like he was prepared to play. I think he felt he let the team down the other night when he didn't play well. But I've never seen him play two games back-to-back poorly."

Goalie Grant Fuhr needed to make only 17 saves as the Oilers outplayed the home team most of the way and evened the best-of-seven series at one game each.

The next three games will be played in Edmonton — Saturday, Tuesday and Thursday — and the Flyers certainly will recall that the New York Islanders went

west under similar circumstances a year ago and never returned to their Nassau Coliseum.

Tim Kerr produced the Flyers' only goal, creating a 1-1 tie in the second period that Lindstrom broke six minutes later. In the 24 minutes following Lindstrom's goal, the Oilers limited Philadelphia to six shots.

There was one tense moment for Edmonton, however, with 78 seconds left. Under heavy pressure from the Flyers, Oilers defenseman Paul Coffey dislodged his net. The rules in that situation call for a penalty shot, but referee Kerry Fraser shrugged his shoulders and called it an accident.

Coffey it heartily agreed, saying, "It was a wrestling match with (Ron) Sutter and I went to push him out of the way. It happened purely by accident."

However, Philadelphia's coach, Mike Keenan, took an opposite view. "Most definitely, I think it was a miscue," he said. "It was an intentional infraction by Coffey. It was called in the Stanley Cup playoffs before this year, but tonight the referee didn't see it that way. He didn't have the courage to call it."

The Flyers' meager total of 18 shots matched their season low.

"There was a great resemblance in how they played to the way we played Tuesday," Keenan said. "They were on top of the puck carrier and used a pressure-type defensive game like we played in Game 1. I don't think they've had to play too many games like that, but they've shown before that they can do it."

This was only the sixth setback in the Spectrum for the Flyers in 30 games this season and Gretzky said the key was Edmonton's ability to score first.

Each team was a man short when Gretzky scored his 50th goal in 67 playoff games. Coffey, trying to wheel in from the right-wing circle, was forced behind the net by Doug Crossman. However, Coffey managed to center the puck to Gretzky, whose point-blank shot hit the states of both goalie Pelle Lindbergh and defenseman Mark Howe.

Lindbergh and Howe were off balance and leaning away from the net when the puck stopped behind the goal. But Gretzky was able to skate around from behind and shoot, with Howe lunging at the last minute and getting a piece of it, although not enough to keep it out.

"We weren't the same tonight. We didn't play with the same aggressiveness," Lindbergh said. "They played better and now it's going to be tough, but we've won there and we can win them again."

The Flyers had been without a shot for about 14 minutes when they suddenly picked up offensive momentum midway through the second period. After Fuhr made tough saves on Mark Howe and Murray Craven, Kerr took Dave Poulin's pass and beat Fuhr from the slot for his 10th goal in 11 playoff games.

The Flyers briefly took over the physical domination as the Oilers had most of the night and McClelland needed treatment after he was hit hard behind the play, without a penalty call, by Ed Hospodar.

McClelland recovered quickly, however, and was back before the period ended, to board Marsh and jar the puck loose. Mike Krushelnyski picked it up in the left wing corner and fed Lindstrom, whose quick drive from the slot for his 10th goal in 11 playoff games.

"I got a little smelting salvo and a little water on my face and I was okay," McClelland said. "I had my head down and he's good at coming across and catching me."

"I don't mind. This was my kind of game: a lot of tight checking and grinding. We're the third line and a checking line and our job is to keep them off the scoreboard."

The Flyers' Ilkka Sinisalo was leveled by Mark Messier in the first period and departed for X-rays of his right shoulder. They proved negative and he was back on the ice before the second period ended.

The Oilers also took a big gamble, inserting rookie left wing Esa Tikkanen onto Gretzky's line in place of Krushelnyski.

It was the first game that Tikkanen played in the NHL. The 19-year-old forward from Finland was signed to a contract Monday after he was named the most valuable player of the World Junior Hockey Championships in Helsinki last month.

"I had never seen him play except in practice," Sather said. "But I pay our scouts a lot of money, and they told me he could play. We needed a lift. I've never seen us so flat. They looked like they were in a morgue on Wednesday morning. I very pleased with the way he played."

Tikkanen speaks English, but team officials would not let him speak to the media.

Asked why, the team's publicist, Bill Tuelle, said: "He's spinning like a top."

(WP, LAT)

Flyers defenseman Mark Howe, with goalie Pelle Lindbergh out of position, dived in attempt to stop Wayne Gretzky's shot. It gave Oilers 1-0 lead.

Paris Draw Goes Hard On McEnroe

United Press International

PARIS — Top seed John McEnroe's luck took a bad turn Friday when three Swedish players, at their best on clay surfaces, were placed in his path at the 128-man draw for the French Open Tennis Championship.

Should the seeds hold through the opening rounds, McEnroe will play 12th-seeded Henrik Sundstrom in the fourth round, 7th-seeded Joakim Nyström in the quarterfinals and 4th-seeded Mats Wilander in the semifinals of the French Open, which begins Monday and ends June 9 on the red clay courts of Roland Garros Stadium.

Second seed and defending champion Ivan Lendl was lucky. He is scheduled to play 10th-seeded Aaron Krickstein, 8th-seeded Eliot Teltscher and 34th-seeded Jim Connors.

In women's singles, top seed and defending champion Martina Navratilova should have a chance to make up for recent losses to Helena Sukova and Hana Mandikova en route to the final.

If the seedings hold, Navratilova will play the 5th-seeded Sukova in the quarterfinals and the 3rd-seeded Mandikova in the semifinals.

McEnroe lost to Sundstrom on clay during Sweden's upset victory over the United States in last year's Davis Cup final and faces the prospect of long baseline battles on the slow surface. In particular, Wilander, the 1982 French Open champion and 1983 finalist, promises a long, debilitating match before the final.

McEnroe lost the five-set final to Lendl last year after winning

Ward Just Grand for Rangers

United Press International

ARLINGTON, Texas — About

the only thing Gary Ward could

not do at Arlington Stadium

Thursday night was get rid of the

thousands of moths flapping

around the players and fans.

Ward did, however, get rid of the

Boston Red Sox in about as big a

one-man performance as the Texas

Rangers have enjoyed this year.

He started by hitting a grand

slam home run in the first inning

and finished the game by scoring the

winning run.

In between, he had two hits, stole

a base and threw out the potential

go-ahead run in the top of the

ninth.

Despite all this the Rangers eked

out a 7-6 decision over the Red Sox.

It was Boston's eighth loss in 11

games and came with a massive

swarm of moths taking advantage.

The Rangers had a 6-3 lead

through six innings, but the Red

Sox scored three runs in the top of

the ninth.

Wade Boggs flew to medium-deep

left field with one out and Marty

Barrett on third. Ward caught the

ball and rifled it to the plate just in

time to catch Barrett.

Ward walked with one out in the

ninth, then caught pitcher Mark

Clear napping and stole second on

the first pitch to Larry Parrish.

Parrish was intentionally walked

and, after Pepe O'Brien's deep fly

out moved up both runners, Brunner

was intentionally walked to load the bases. That brought up

Curtis Wilkerson, who watched as

Bob Ojeda was wild on four

straight throws.

"I brought Bob in because I

wanted him to get used to that

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BASEBALL ROUNDUP

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A's 4, Orioles 2

In Cleveland, Pelle Lindbergh

and Brad Marsh

checked the ice

for Willy Lindstrom

of the Oilers

for the Flyers

and Ed Hospodar

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